

**BEFORE THE HONORABLE MODARABA TRIBUNAL, LAHORE**  
*(Modaraba Jurisdiction)*

Modaraba Application No. 01/06 of 2020

In the matter of First National Bank Modaraba, managed by **M/s National Bank Modaraba Management Company Limited**

**Registrar Modaraba Companies and Modarabas**

*Versus*

**M/s National Bank Modaraba Management Company Limited and Others**

**PETITION UNDER SECTION 23 OF MODARABA COMPANIES AND MODARABA (FLOATATION AND CONTROL) ORDINANCE, 1980 READ WITH ALL OTHER ENABLING PROVISIONS OF LAW FOR WINDING UP OF RESPONDENT NO. 1 MODARABA COMPANY**

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**PETITIONER**

**Through:**



**Ruman Bilal**  
**Advocate High Court**  
**C.C.NO. # P-GW-48254**  
**Mob: 0322-3110111**

**BEFORE THE HONORABLE MODARABA TRIBUNAL, LAHORE**  
(*Modaraba Jurisdiction*)

o/c

Modaraba Application No. 01/06 of 2020

In the matter of First National Bank Modaraba, managed by **National Bank Modaraba Management Company Limited**

**Registrar Modaraba Companies and Modarabas**, appointed under section 3 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 having its office at Securities and Exchange Commission of Pakistan, NIC Building, 63-Jinnah Avenue, Islamabad.

... Petitioner

*Versus*

1. **First National Bank Modaraba**, a Modaraba floated and managed by National Bank Modaraba Management Company Limited under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), having its registered office at Ground Floor, National Bank of Pakistan, Regional Head Quarters Building, 26 Mclagon Road, Lahore, through its Chief Executive Officer/Directors.
2. **National Bank Modaraba Management Company Limited**, a company incorporated under the then Companies Ordinance, 1984 (XLVII of 1984) [Now the Companies Act, 2017 (XIX of 2017)], registered as a Modaraba Company under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), having its registered office at Ground Floor, National Bank of Pakistan, Regional Head Quarters Building, 26 Mclagon Road, Lahore through its Chief Executive Officer/Directors.
3. **Abbas Azam**, Chief Executive / Director, Resident of House No. 112, Riwaz Garden, Lahore.
4. **Imran Malik**, Director, Resident of House No. 12 C "q", Street Off Khayaban-e-Sehar, Phase VI, DHA, Karachi.

5. **Rehmat Ali Hasnie**, Director, Resident of House No. 88/II, Khayaban-e-Tariq, Phase VI, DHA, Karachi.
6. **Jamal Baquar**, Director, Resident of House No. 85, 12<sup>th</sup> Street, Khayaban-e-Sehar, Phase VI, DHA, Karachi.
7. **Khawaja Waheed Raza**, Director, Resident of House No. 100/7, Saint John's Park, Lahore Cantt.
8. **Jamal Naseem**, Director, Resident of House No. 333, Street No. 7, PAF Falcon Housing Scheme, Shaheed-e-Millat Road, Karachi.
9. **Muhammad Iqbal Hussain**, Director, Resident of House No. 105, Street No. 589, Section G-13/2, Islamabad.

.....Respondents

**PETITION UNDER SECTION 23 OF MODARABA COMPANIES AND MODARABA (FLOATATION AND CONTROL) ORDINANCE, 1980, READ WITH ALL OTHER ENABLING PROVISIONS OF THE LAW FOR WINDING UP OF FIRST NATIONAL BANK MODARABA (RESPONDENT NO. 1), FLOATED AND MANGED BY NATIONAL BANK MODARABA COMPANY LIMITED (RESPONDED NO. 2)**

Respectfully *Sheweth*:-

1. That the names and addresses of the parties as given in the title of the Petition are true and correct as per the record maintained by the office of the Petitioner and the same are sufficient for the purpose of effecting service upon them.
2. That the Petitioner is Registrar of Modaraba Companies and Modaraba, appointed under section 3 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (the "**Ordinance**"). The Petitioner, being the Registrar, is fully conversant with the facts of this instant petition and is duly authorized to present this Petition before this Hon'ble Court under the Ordinance.
3. That the Respondent No.2, a company namely, National Bank Modaraba Management Company Limited, (hereinafter to be referred as the "**Modaraba Company**") was primarily incorporated with the Company Registration Office Lahore of Securities and Exchange Commission of Pakistan on August 6<sup>th</sup>, 1992 vide Company Registration No. L 05372 of 1992-93 under the then Companies Ordinance of 1984 (XLVII of 1984) [now the Companies Act, 2017 (XIX of 2017)]. The Company was registered as Modaraba Company with the Registrar Modaraba Companies and Modaraba on 12.10.1994 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) (hereinafter referred to as "**the Ordinance**").

*((The copy of the Certificate of Incorporation, Registration Certificate are appended herewith as Annexures A & B, respectively))*



4. The Modaraba Company was duly authorized by the Petitioner under section 11 of the Ordinance to float Modaraba namely; First National Bank Modaraba (the "**Modaraba**") (Respondent No. 1), subject to the conditions attached with the Modaraba Authorization Certificate dated 07-11-1995.

*(The copy of the Modaraba Authorization Certificate .. Conditions is appended herewith as Annexure C)*

5. That as per latest Form-21 dated 10-11-2016 submitted by the Modaraba Company with the Petitioner, the registered office of the Modaraba Company is reported to be situated at Ground Floor, NBP Regional Head Quarters Building, 26 Mclagon Road, Lahore. That as per Form-A and latest Form-29 dated 12-04-2019, the Respondent No. 2 is CEO/Director of the Modaraba Company while Respondents No. 3 to 8 are Directors of the Modaraba Company.

*(The copy of Form 21 dated 10-11-2016, copy of latest Form-A of the Modaraba Company made up to 25-04-2019 and copy of latest Form 29 dated 12-04-2019 are appended herewith as Annexures D, E & F)*

6. That as per memorandum of the Modaraba Company, the purpose for which the Modaraba Company was incorporated amongst others, inter alia, were:

*"To initiate, sponsor, promote, float, organize, manage, administer, operate, modaraba funds and modarabas of all types and descriptions, mutual funds, unit trust and other similar concerns either in syndicates or otherwise for the purpose of undertaking all activities which a modaraba can undertake under the law providing that none of these enterprises would be engaged in or the funds thereof invested in any venture; the activities of which are contrary to the injunctions of Islam or which involve the element of riba in any form whatsoever...."*

7. The Modaraba to the effect of its business also filed its prospectus under rule 20 (2) of the Modaraba Companies and Modaraba Rules, 1981 (the "**Modaraba Rules**") which are duly signed by the CEO and all of the directors under the said Modaraba Rules.

*(Copy of Memorandum and Articles of Association and Prospectus are attached as Annexures G & H)*

8. That the authorized capital/fund of the Modaraba is Rs. 600,000,000/-, divided into 60,000,000 ordinary modaraba certificates of Rs.10/- each. While the paid-up capital/fund of the Modaraba is Rs. 250,000,000/-, divided into 25,000,000 ordinary shares of Rs.10/-.
9. That the Registrar/Petitioner, while examining the audited financial statements of the Modaraba for the last five years summarized below had noted that the Modaraba was running in losses for a consecutive period of five years and accumulated losses of the Modaraba stood at Rs. 277.62 million as on June 30, 2017 against the total Modaraba Fund of Rs. 250 million, subscribed by the holders of the Modaraba certificates.

Year Ended	June, 2017	June, 2016	June, 2015	June, 2014	June, 2013
	Rs. in million				
Paid up Fund	250	250	250	250	250
Profit/(Loss) for the year	(71.35)	(53.83)	(122.17)	(34.21)	(16.86)
Un-appropriated profits/ (accumulated loss)	(277.62)	(206.26)	(152.43)	(30.25)	(3.95)
Accumulated losses in term of percentage of Paid up fund	111%	83%	61%	12%	-

10. That as mentioned above, the Modaraba has been accruing huge financial loss due to cease of its operations and lack of funds. As per half yearly accounts of the Modaraba for the period ended December 31, 2017, the accumulated losses of the Modaraba amounted to Rs. 276.60 million which constituted 111% of the total Modaraba Fund (Rs. 250 million), subscribed by the holders of the Modaraba certificates. Hence, total Modaraba fund has been eroded. The auditors of the Modaraba (M/s. Riaz Ahmed & Company, Chartered Accountants), in their audit report to the members for the year ended June 30, 2017 had drawn attention to note 1.1 of the annual accounts, which states that the Modaraba is no longer a going concern, therefore, the financial statements have been prepared on the basis of estimated realizable/ settlement values of assets and liabilities, respectively. This resulted in recognition of additional provision of Rs. 39.07 million based on the subjective evaluation of non-performing receivables. The note 1.1 of the Annual Audit Report for year 2017 is as under:

*"During the year, the Modaraba made an operating profit of Rupees 16.569 million, however, due to provision and impairment charged against classified assets, the Modaraba incurred loss after taxation of Rs. 71.359 million taking the accumulated loss to Rupees 277.622 million which exceeds the total amount subscribed by the holders of the modaraba certificates. This may attract the provisions of section 23 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. As on the reporting date, the Modaraba's accumulated loss net of statutory reserve is amounting to Rupees 233.666 million and its current liabilities exceeded its current assets by Rupees 183.394 million....."*

The same fact was reported by the statutory auditors (M/s. Horwath Hussain Chaudhury & Co, Chartered Accountants) in their report to the members at note 1.2 of the Modaraba for the year end June 30, 2018;

*"During the year, the Modaraba made loss before 'Modaraba Company's Management Fee' of Rs. 8.179 million (2017: Rs. 71.360). As at the reporting date, its current liabilities exceed its current assets by Rs. 122.862 million (2017: Rs. 183.394 million) and accumulated losses amount to Rs. 285.801 million (2017: Rs. 277.622 million). In purview of consistent losses the Registrar Modaraba has issued a show cause notice*

*to the Modaraba as to why should the proceedings to wind up the Modaraba not be initiated in terms of Section 23 (1)(ii)(b) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. These factors indicate the existence of material uncertainties that casts significant doubts about the Modaraba's ability to continue as a going concern, and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business..."*

The very fact has been reaffirmed and reported by the statutory auditors (M/s. Horwath Hussain Chaudhury & Co, Chartered Accountants) in their report to the members at note 1.2 of the Modaraba or the year end June 30, 2019:

*"During the year, the Modaraba made loss before 'Modaraba Company's Management Fee' of Rs. 35.716 million (2018: Rs. 8.18). As at the reporting date, its current liabilities exceed its current assets by Rs. 109.010 million (2018: Rs. 122.871 million) and accumulated losses amount to Rs. 316.065 million (2018: Rs. 285.811 million)...."*

*However, in the absence of fresh equity and execution of the business plans as intended by the management, the above factors indicate the existence of material uncertainty that casts significant doubts about the Modaraba's ability to continue as a going concern, and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business..."*

***(Copy of Financial Statement Audit Report for year end June 30, 2017, June 30, 2018 and June 30, 2019 are attached as Annexures I, J & K)***

11. That the issue of financial condition of the Modaraba and accumulated losses was taken up by the Petitioner with the Modaraba Company multiple times. Initially, vide letter dated May 13, 2015, the CEO of the Modaraba Company was advised to provide management's plan for stemming the losses and to enhance Modaraba's equity. Later on, in a number of meetings held with the CEO and directors of the Modaraba Company, the worsening financial position of the Modaraba was discussed. Despite providing sufficient time and opportunity, the Modaraba Company and its Board of Directors failed to arrest the losses. Besides others, the options to revive the business operations and ameliorate the financial position of the Modaraba through injection of fresh equity or sub-ordinated funds or low cost funding from the National Bank of Pakistan-the holding company ("NBP") were also discussed with the CEO but no action is taken till date.

***(Copy of letter dated May 13, 2015 is attached as Annexure L)***

That the Modaraba Company vide its letter dated May 11, 2017 informed the Petitioner that the Board of Directors of NBP passed a resolution in its meeting held on April 21, 2017, authorizing the Modaraba Company to explore appropriate options for achieving cessation of business of the Modaraba and that of the Modaraba Company. The options may include but not limited to winding up or merger or seeking expression of interest, as appropriate. The CEO of the Modaraba Company was advised vide letter dated May 30, 2017 to come up with an exit strategy, approved by the BOD and submit the same latest by August 15, 2017.

*(Copies of letter dated May 11, 2017 and May 30, 2017 are attached as Annexures M & N)*

12. That the CEO of the Modaraba Company, vide his email dated October 13, 2017 informed that the option of merger/amalgamation of the Modaraba with NBP was discussed in a meeting of the BOD of the Modaraba Company, held on October 05, 2017, where among other things, pros and cons of the option were deliberated and it was decided to write a formal letter to NBP's Board of Directors in this regard. The Modaraba Company vide letter dated December 18, 2017 informed that the matter was submitted to the Board of Directors of NBP and their decision is still awaited.

*(Copies of email dated October 13, 2017 and letter dated December 18, 2017 are attached as Annexures O & P)*

13. That since June 2015, ample time and opportunities were granted to the Modaraba Company and its directors to either revive the Modaraba or come up with a concrete plan or strategy to arrest the increasing losses of the Modaraba, but no positive response was ever received by the Petitioner. Keeping in view the continuing financial losses, worsening financial conditions and poor performance of the Modaraba, the Petitioner issued a show cause notice dated April 02, 2018 to the Respondent No. 1 Modaraba Company and its CEO and directors, under section 23 of the Ordinance.

*(Copy of the show cause notice dated April 02, 2018 is attached as Annexure Q)*

14. That in response to the show cause notice dated April 02, 2018 issued to the Modaraba Company and its directors, the Respondents had submitted a written reply dated April 10, 2018 whereby the Respondents had admitted themselves that the Modaraba has been incurring losses since 2013. Besides that, no satisfactory response was given either by the Modaraba Company or its management but to provide more time to decide whether the Modaraba should be kept operational or not.

*(Copy of the reply dated April 10, 2018 to the show cause notice dated April 02, 2018 is attached as Annexure R)*

15. That a hearing in the matter of aforesaid show cause notice was fixed by the Petitioner in April 16, 2018. Upon request of the Respondents, the hearing was rescheduled for June 05, 2018. On the said date, the CEO along with all directors of the Modaraba Company (Respondent No. 2) attended the hearing. During the hearing, the CEO of the Modaraba Company admitted the contents of the show cause notice which warranted winding-up of the Modaraba under section 23 of the Ordinance. The CEO also informed that the parent company NBP has decided to inject Rs. 300 million in to the Modaraba. Upon this commitment, the Petitioner provided another opportunity to the Modaraba Company to continue and turnaround the Modaraba by utilizing the funds to be injected by the parent company (NBP) in the best interest of the certificate holders.

16. That the Modaraba Company and its consultants vide letter dated October 02, 2018 filed a formal application dated September 04, 2018 in terms of section 83 of the

Companies Act, 2017 for issuance of new modaraba certificates (other than right) at par value of Rs. 10/- each, valuing Rs. 300 million to NBP. In the best interest and to support the Modaraba, the approval for issuance of other than right modaraba certificates was granted on December 03, 2018 to the Modaraba Company.

*(Copies of the letter dated October 02, 2018 along with application dated September 04, 2018 and approval dated December 03, 2018 are attached as Annexure S & T)*

17. That after the approval dated December 03, 2018 and subsequent correspondence and emails exchanged between the Modaraba Company and the Petitioner's office, it was revealed that the National Bank of Pakistan had sought no objection ("NOC") of the proposed injection of funds from the State Bank of Pakistan ("SBP"), which till date has not granted the requisite NOC.
18. That the Petitioner heard the Respondents in detail and considered all the relevant facts, documents placed before it, granted sufficient time to the Modaraba Company and Respondents No. 2 to 8 for recapitalization of the Modaraba. However, the Respondents were completely failed to come up with any concrete plan and to fulfil its commitment to inject the funds. The matter of injection of funds in the Modaraba is lingering on since July, 2018. The continuous losses of the Modaraba during the last five years have wiped out almost the entire paid up fund of the Modaraba. Due to non-availability of working capital, entire business activities of the Modaraba are at halt. Further, as per the annual audited accounts of the Modaraba for the year end June 30, 2018 and June 30, 2019, the accumulated losses of the Modaraba are continuously increasing and have reached to Rs.285,810,707/- and Rs.316,065,303/-, respectively. The equity of the Modaraba is already negative and there are remote chances of revival of the Modaraba and resultantly any return accruing to the modaraba certificate holders, under the above circumstances. Among other items, operating expenses alone of Rs. 71.81 million (2018) and Rs. 52.35 million (2019) are contributing towards further deterioration of public funds every year.
19. That as per the aforesaid audited accounts and financial statements of the Modaraba for the year end June 30, 2018 and June 30, 2019, the accumulated losses of the Modaraba have exceeded more than fifty percent of the total amount subscribed by the Modaraba Certificate holders. The Modaraba is, therefore, failed to arrest further deterioration in both asset quality and performance of the Modaraba with the result that the accumulated losses have in fact exceeded more than 100% of the paid up fund. The Petitioner, therefore, keeping in view all the aforesaid circumstances and record of the Modaraba, exercised its power under section 23 (1)(ii)(b) of the Ordinance and passed an order dated October 31, 2019 and declared that as the accumulated losses of the Modaraba have exceeded more than fifty percent of the total amount subscribed by the modaraba certificate holders, it may be wound up in the public interest by filing an application for winding up before this Honorable Modaraba Tribunal, Lahore.

*(Copy of the order dated October 31, 2019 is attached herewith as Annexure U)*

20. That the Modaraba is liable to be wound-up, inter alia, on the following:

GROUNDS

- A. That the Respondent Modaraba has closed its business/operation and is incurring continued losses as mentioned in the Modaraba's statutory Auditors' report for year end June 30, 2017, June 30, 2018 and June 30, 2019. The Respondent No. 2 Modaraba Company has also failed to provide any concrete plan to the Registrar Modaraba for its revival and due to which it is observed that *prima facie*, the business of the Respondent Modaraba has been suspended for the same period.
- B. That the statutory auditors, have categorically mentioned in their audited reports for the years end June, 2017 to June, 2019 that the Modaraba has suspended its business and recurring continuous losses and keeping in view its negative equity, liabilities far exceed than its assets, non-compliances and cessation of commercial operations of the Modaraba, cast a huge doubt on Modaraba's ability to continue as a going concern.
- C. Furthermore, the Auditors' of the Modaraba have been giving adverse opinions in their reports to members on the accounts for the year end June 30, 2017 to June 30, 2019 and the same was prepared keeping in view the Respondent Modaraba as a non-going concern.
- D. That the management of the Modaraba Company has failed to come up with any concrete plan for revival or recapitalization of the Modaraba despite ample opportunities and time has already been granted to the Modaraba Company and its management since 2015.
- E. That it is settled principle of law that "a Modaraba" is liable to be wound up under section 23(1)(ii)(b), if the accumulated losses of the modaraba exceed fifty per cent of the total amount subscribed by the holders of the Modaraba Certificates.
- F. That the substratum of the Respondent Modaraba has been lost, as the Modaraba has admittedly closed its operation and resultantly not doing any business since then. Reliance is placed on (PLD 1990 SC 763).
- G. That the accumulated losses of the Modaraba have exceeded more than fifty percent of the total amount subscribed by the Modaraba Certificate holders. The Modaraba Company, therefore, failed to arrest further deterioration in both in asset quality and performance of the Modaraba with the result that the accumulated losses have in fact exceeded more than 100% of the paid up fund. The Modaraba, therefore, is liable to be wound up under section 23(1)(ii)(b) of the Ordinance. Reliance is place on 2009 CLD 85 Karachi.

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- H. That in the circumstances mentioned above and under the provisions of the section 23 with all other applicable provisions of law, the Modaraba is liable to be wound up.
- I. That additional grounds may kindly be allowed to be raised during the proceedings of the petition.
- J. That in view of the above it is therefore in the interest of justice and also just and equitable that the Respondent Modaraba i.e First National Bank Modaraba may kindly be wound-up.

**PRAYER:**

It is, therefore, most respectfully prayed that this Honorable Court may be pleased:

- A. To order the Winding-Up of the First National Bank Modaraba, managed by National Bank Modaraba Management Company Limited under section 23(1)(ii)(b) of the Ordinance;
- B. To appoint an Official Liquidator/Provisional Manager to conduct the winding-up proceedings and perform related duties, and be directed to record the statement of affairs of the Modaraba;
- C. To order appropriate proceedings against the Chief Executive and Directors (Respondent No. 2 to 8) of the Respondent No. 2 Modaraba Company; and
- D. To pass such further order or orders and to issue all consequential and necessary directions as this Honorable Court may deem fit and proper in the circumstances.
- E. To order the Respondent No. 1 Modaraba Company to pay the costs of the instant petition;

Any other relief which this Honorable Court deems fit and proper in the peculiar circumstances of the instant petition may very kindly be awarded.



Petitioner

*Bushra*

(Bushra Aslam)

Registrar

Modaraba Companies and Modaraba  
Securities and Exchange Commission of Pakistan,  
NIC Building, 63-Jinnah Avenue,  
Islamabad.

10

*Through Counsel:*



**Ruman Bilal**

Advocate High Court

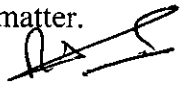
C.C. No. # P-GW-48254

CNIC: 34101-6280940-7

Mob: 0322-3110111

**Certificate:**

As per instructions by the Petitioner, it is the First Petition on the subject matter.



**Advocate**



BEFORE THE HONORABLE MODARABA TRIBUNAL, LAHORE  
(Modaraba Jurisdiction)

Modaraba Application No. 01/06 of 2020

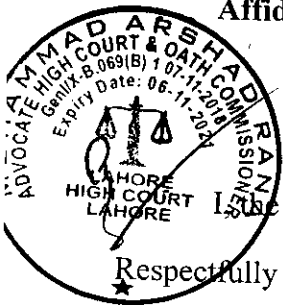
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Registrar Modaraba Companies and Modarabas

Versus

National Bank Modaraba Management Company Limited etc.

**PETITION UNDER SECTION 23 OF MODARABA COMPANIES AND MODARABA (FLOATATION AND CONTROL) ORDINANCE, 1980 READ WITH ALL OTHER ENABLING PROVISIONS OF THE LAW FOR WINDING UP OF RESPONDENT NO. 1 MODARABA**



**Affidavit of:** Miss Bushra Aslam, Registrar Modaraba Companies and Modaraba, having its office at Securities and Exchange Commission of Pakistan, NIC Building, 63-Jinnah Avenue, Islamabad

I, the above deponent, do hereby solemnly affirm and declare as under:-

Respectfully Sheweth:-

1. That the names and addresses of the parties as given in the title of the Petition are true and correct as per the record maintained by the office of the Petitioner and the same are sufficient for the purpose of effecting service upon them.
2. That the Petitioner is Registrar of Modaraba Companies and Modaraba, appointed under section 3 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (the "**Ordinance**"). The Petitioner, being the Registrar, is fully conversant with the facts of this instant petition and is duly authorized to present this Petition before this Hon'ble Court under the Ordinance.
3. That the Respondent No.2 company namely, National Bank Modaraba Management Company Limited, (hereinafter to be referred as the "**Modaraba Company**") was primarily incorporated with the Company Registration Office Lahore of Securities and Exchange Commission of Pakistan on August 6<sup>th</sup>, 1992 vide Company Registration No. L 05372 of 1992-93 under the then Companies Ordinance of 1984 (XLVII of 1984) [now the Companies Act, 2017 (XIX of 2017)]. The Company was registered as Modaraba Company with the Registrar Modaraba Companies and Modaraba on 12.10.1994 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) (hereinafter referred to as "**the Ordinance**").

*(The copy of the Certificate of Incorporation, Registration Certificate are appended herewith as Annexures A & B, respectively)*

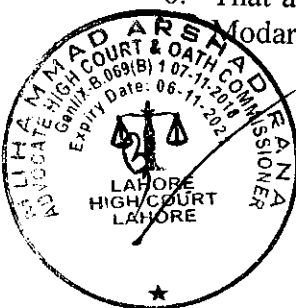
4. The Modaraba Company was duly authorized by the Petitioner under section 11 of the Ordinance to float Modaraba namely; First National Bank Modaraba (the "Modaraba"), subject to the conditions attached with the Modaraba Authorization Certificate dated 07-11-1995.

*(The copy of the Modaraba Authorization Certificate Conditions is appended herewith as Annexure C)*

5. That as per latest Form-21 dated 10-11-2016 submitted by the Modaraba Company with the Petitioner, the registered office of the Modaraba Company is reported to be situated at Ground Floor, NBP Regional Head Quarters Building, 26 Mclagon Road, Lahore. That as per Form-A and latest Form-29 dated 12-04-2019, the Respondent No. 2 is CEO/Director of the Modaraba Company while Respondents No. 3 to 8 are Directors of the Modaraba Company.

*(The copy of Form 21 dated 10-11-2016, copy of latest Form-A of the Modaraba Company made up to 25-04-2019 and copy of latest Form 29 dated 12-04-2019 are appended herewith as Annexures D, E & F)*

6. That as per memorandum of the Modaraba Company, the purpose for which the Modaraba Company was incorporated amongst others, inter alia, were:



*"To initiate, sponsor, promote, float, organize, manage, administer, operate, modaraba funds and modarabas of all types and descriptions, mutual funds, unit trust and other similar concerns either in syndicates or otherwise for the purpose of undertaking all activities which a modaraba can undertake under the law providing that none of these enterprises would be engaged in or the funds thereof invested in any venture; the activities of which are contrary to the injunctions of Islam or which involve the element of riba in any form whatsoever...."*

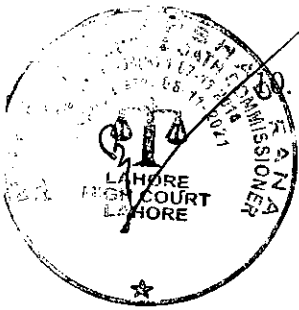
7. The Modaraba to the effect of its business also filed its prospectus under rule 20 (2) of the Modaraba Companies and Modaraba Rules, 1981 (the "Modaraba Rules") which are duly signed by the CEO and all of the directors under the said Modaraba Rules.

*(Copy of Memorandum and Articles of Association and Prospectus are attached as Annexures G & H)*

8. That the authorized capital/fund of the Modaraba is Rs. 600,000,000/-, divided into 60,000,000 ordinary modaraba certificates of Rs.10/- each. While the paid-up capital/fund of the Modaraba is Rs. 250,000,000/-, divided into 25,000,000 ordinary shares of Rs.10/-.
9. That the Registrar/Petitioner, while examining the audited financial statements of the Modaraba for the last five years summarized below had noted that the Modaraba was running in losses for a consecutive period of five years and accumulated losses of the Modaraba stood at Rs. 277.62 million as on June 30, 2017 against the total

Modaraba Fund of Rs. 250 million, subscribed by the holders of the Modaraba certificates.

Year Ended	June, 2017	June, 2016	June, 2015	June, 2014	June, 2013
	Rs. in million				
Paid up Fund	250	250	250	250	250
Profit/(Loss) for the year	(71.35)	(53.83)	(122.17)	(34.21)	(16.86)
Un- appropriated profits/ (accumulated loss)	(277.62)	(206.26)	(152.43)	(30.25)	(3.95)
Accumulated losses in term of percentage of Paid up fund	111%	83%	61%	12%	-



That as mentioned above, the Modaraba has been accruing huge financial loss due to cease of its operations and lack of funds. As per half yearly accounts of the Modaraba for the period ended December 31, 2017, the accumulated losses of the Modaraba amounted to Rs. 276.60 million which constituted 111% of the total Modaraba Fund (Rs. 250 million), subscribed by the holders of the Modaraba certificates. Hence, total Modaraba fund has been eroded. The auditors of the Modaraba (M/s. Riaz Ahmed & Company, Chartered Accountants), in their audit report to the members for the year ended June 30, 2017 had drawn attention to note 1.1 of the annual accounts, which states that the Modaraba is no longer a going concern, therefore, the financial statements have been prepared on the basis of estimated realizable/ settlement values of assets and liabilities, respectively. This resulted in recognition of additional provision of Rs. 39.07 million based on the subjective evaluation of non-performing receivables. The note 1.1 of the Annual Audit Report for year 2017 is as under:

*"During the year, the Modaraba made an operating profit of Rupees 16.569 million, however, due to provision and impairment charged against classified assets, the Modaraba incurred loss after taxation of Rs. 71.359 million taking the accumulated loss to Rupees 277.622 million which exceeds the total amount subscribed by the holders of the modaraba certificates. This may attract the provisions of section 23 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. As on the reporting date, the Modaraba's accumulated loss net of statutory reserve is amounting to Rupees 233.666 million and its current liabilities exceeded its current assets by Rupees 183.394 million....."*

The same fact was reported by the statutory auditors (M/s. Horwath Hussain Chaudhury & Co, Chartered Accountants) in their report to the members at note 1.2 of the Modaraba for the year end June 30, 2018:

*"During the year, the Modaraba made loss before 'Modaraba Company's Management Fee' of Rs. 8.179 million (2017: Rs. 71.360). As at the reporting date, its current liabilities exceed its current assets by Rs. 122.862 million (2017: Rs. 183.394 million) and accumulated losses amount to Rs. 285.801 million (2017: Rs. 277.622 million). In purview of consistent losses the Registrar Modaraba has issued a show cause notice to the Modaraba as to why should the proceedings to wind up the Modaraba not be initiated in terms of Section 23 (1)(ii)(b) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. These factors indicate the existence of material uncertainties that casts significant doubts about the Modaraba's ability to continue as a going concern, and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business..."*

The very fact has been reaffirmed and reported by the statutory auditors (M/s. Horwath Hussain Chaudhury & Co, Chartered Accountants) in their report to the members at note 1.2 of the Modaraba or the year end June 30, 2019:

*"During the year, the Modaraba made loss before 'Modaraba Company's Management Fee' of Rs. 35.716 million (2018: Rs. 8.18). As at the reporting date, its current liabilities exceed its current assets by Rs. 109.010 million (2018: Rs. 122.871 million) and accumulated losses amount to Rs. 316.065 million (2018: Rs. 285.811 million)...."*

*However, in the absence of fresh equity and execution of the business plans as intended by the management, the above factors indicate the existence of material uncertainty that casts significant doubts about the Modaraba's ability to continue as a going concern, and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business..."*



***(Copy of Financial Statement Audit Report for year end June 30, 2017, June 30, 2018 and June 30, 2019 are attached as Annexures I, J & K)***

11. That the issue of financial condition of the Modaraba and accumulated losses was taken up by the Petitioner with the Modaraba Company multiple times. Initially, vide letter dated May 13, 2015, the CEO of the Modaraba Company was advised to provide management's plan for stemming the losses and to enhance Modaraba's equity. Later on, in a number of meetings held with the CEO and directors of the Modaraba Company, the worsening financial position of the Modaraba was discussed. Despite providing sufficient time and opportunity, the Modaraba Company and its Board of Directors failed to arrest the losses. Besides others, the options to revive the business operations and ameliorate the financial position of the Modaraba through injection of fresh equity or sub-ordinated funds or low cost funding from the National Bank of Pakistan-the holding company ("NBP") were also discussed with the CEO but no action is taken till date.

***(Copy of letter dated May 13, 2015 is attached as Annexure L)***

That the Modaraba Company vide its letter dated May 11, 2017 informed the Petitioner that the Board of Directors of NBP passed a resolution in its meeting held on April 21, 2017, authorizing the Modaraba Company to explore appropriate options for achieving cessation of business of the Modaraba and that of the

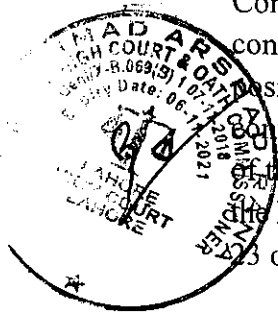
Modaraba Company. The options may include but not limited to winding up or merger or seeking expression of interest, as appropriate. The CEO of the Modaraba Company was advised vide letter dated May 30, 2017 to come up with an exit strategy, approved by the BOD and submit the same latest by August 15, 2017.

*(Copies of letter dated May 11, 2017 and May 30, 2017 are attached as Annexures M & N)*

12. That the CEO of the Modaraba Company, vide his email dated October 13, 2017 informed that the option of merger/amalgamation of the Modaraba with NBP was discussed in a meeting of the BOD of the Modaraba Company, held on October 05, 2017, where among other things, pros and cons of the option were deliberated and it was decided to write a formal letter to NBP's Board of Directors in this regard. The Modaraba Company vide letter dated December 18, 2017 informed that the matter was submitted to the Board of Directors of NBP and their decision is still awaited.

*(Copies of email dated October 13, 2017 and letter dated December 18, 2017 are attached as Annexures O & P)*

13. That since June 2015, ample time and opportunities were granted to the Modaraba Company and its directors to either revive the Modaraba or come up with a concrete plan or strategy to arrest the increasing losses of the Modaraba, but no positive response was ever received by the Petitioner. Keeping in view the continuing financial losses, worsening financial conditions and poor performance of the Modaraba, the Petitioner issued a show cause notice dated April 02, 2018 to the Respondent No. 1 Modaraba Company and its CEO and directors, under section 23 of the Ordinance.



*(Copy of the show cause notice dated April 02, 2018 is attached as Annexure Q)*

14. That in response to the show cause notice dated April 02, 2018 issued to the Modaraba Company and its directors, the Respondents had submitted a written reply dated April 10, 2018 whereby the Respondents had admitted themselves that the Modaraba has been incurring losses since 2013. Besides that, no satisfactory response was given either by the Modaraba Company or its management but to provide more time to decide whether the Modaraba should be kept operational or not.

*(Copy of the reply dated April 10, 2018 to the show cause notice dated April 02, 2018 is attached as Annexure R)*

15. That a hearing in the matter of aforesaid show cause notice was fixed by the Petitioner in April 16, 2018. Upon request of the Respondents, the hearing was rescheduled for June 05, 2018. On the said date, the CEO along with all directors of the Respondent No. 2 Modaraba Company attended the hearing. During the hearing, the CEO of the Modaraba Company admitted the contents of the show cause notice which warranted winding-up of the Modaraba under section 23 of the Ordinance. The CEO also informed that the parent company NBP has decided to inject Rs. 300 million in to the Modaraba. Upon this commitment, the Petitioner provided another opportunity to the Modaraba Company to continue and

turnaround the Modaraba by utilizing the funds to be injected by the parent company (NBP) in the best interest of the certificate holders.

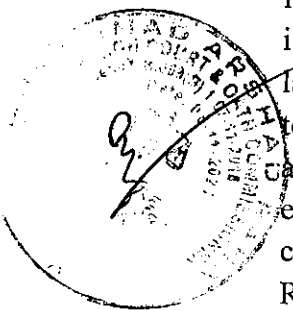
16. That the Modaraba Company and its consultants vide letter dated October 02, 2018 filed a formal application dated September 04, 2018 in terms of section 83 of the Companies Act, 2017 for issuance of new modaraba certificates (other than right) at par value of Rs. 10/- each, valuing Rs. 300 million to NBP. In the best interest and to support the Modaraba, the approval for issuance of other than right modaraba certificates was granted on December 03, 2018 to the Modaraba Company.

*(Copies of the letter dated October 02, 2018 along with application dated September 04, 2018 and approval dated December 03, 2018 are attached as Annexure S & T)*

17. That after the approval dated December 03, 2018 and subsequent correspondence and emails exchanged between the Modaraba Company and the Petitioner's office, it was revealed that the National Bank of Pakistan had sought no objection ("NOC") of the proposed injection of funds from the State Bank of Pakistan ("SBP"), which till date has not granted the requisite NOC.

18. That the Petitioner heard the Respondents in detail and considered all the relevant facts, documents placed before it, granted sufficient time to the Modaraba Company and Respondents No. 2 to 8 for recapitalization of the Modaraba. However, the Respondents were completely failed to come up with any concrete plan and to fulfil its commitment to inject the funds. The matter of injection of funds in the Modaraba is lingering on since July, 2018. The continuous losses of the Modaraba during the last five years have wiped out almost the entire paid up fund of the Modaraba. Due to non-availability of working capital, entire business activities of the Modaraba are at halt. Further, as per the annual audited accounts of the Modaraba for the year end June 30, 2018 and June 30, 2019, the accumulated losses of the Modaraba are continuously increasing and have reached to Rs.285,810,707/- and Rs.316,065,303/-, respectively. The equity of the Modaraba is already negative and there are remote chances of revival of the Modaraba and resultantly any return accruing to the modaraba certificate holders, under the above circumstances. Among other items, operating expenses alone of Rs. 71.81 million (2018) and Rs. 52.35 million (2019) are contributing towards further deterioration of public funds every year.

19. That as per the aforesaid audited accounts and financial statements of the Modaraba for the year end June 30, 2018 and June 30, 2019, the accumulated losses of the Modaraba have exceeded more than fifty percent of the total amount subscribed by the Modaraba Certificate holders. The Modaraba is, therefore, failed to arrest further deterioration in both asset quality and performance of the Modaraba with the result that the accumulated losses have in fact exceeded more than 100% of the paid up fund. The Petitioner, therefore, keeping in view all the aforesaid circumstances and record of the Modaraba, exercised its power under section 23 (1)(ii)(b) of the Ordinance and passed an order dated October 31, 2019 and declared that as the accumulated losses of the Modaraba have exceeded more than fifty percent of the total amount subscribed by the modaraba certificate holders, it may be wound up in the public interest by filing an application for winding up before this Honorable Modaraba Tribunal, Lahore.

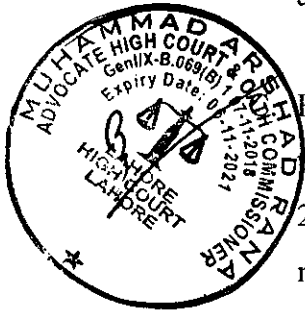


(Copy of the order dated October 31, 2019 is attached herewith as Annexure U)

20. That the Modaraba is liable to be wound-up, inter alia, on the following:

### GROUNDS

- A. That the Respondent Modaraba has closed its business/operation and is incurring continued losses as mentioned in the Modaraba's statutory Auditors' report for year end June 30, 2017, June 30, 2018 and June 30, 2019. The Respondent No. 2 Modaraba Company has also failed to provide any concrete plan to the Registrar Modaraba for its revival and due to which it is observed that *prima facie*, the business of the Respondent Modaraba has been suspended for the same period.
- B. That the statutory auditors, have categorically mentioned in their audited reports for the years end June, 2017 to June, 2019 that the Modaraba has suspended its business and recurring continuous losses and keeping in view its negative equity, liabilities far exceed than its assets, non-compliances and cessation of commercial operations of the Modaraba, cast a huge doubt on Modaraba's ability to continue as a going concern.



Furthermore, the Auditors' of the Modaraba have been giving adverse opinions in their reports to members on the accounts for the year end June 30, 2017 to June 30, 2019 and the same was prepared keeping in view the Respondent Modaraba as a non-going concern.

- D. That the management of the Modaraba Company has failed to come up with any concrete plan for revival or recapitalization of the Modaraba despite ample opportunities and time has already been granted to the Modaraba Company and its management since 2015.
- E. That it is settled principle of law that "a Modaraba" is liable to be wound up under section 23(1)(ii)(b), if the accumulated losses of the modaraba exceed fifty per cent of the total amount subscribed by the holders of the Modaraba Certificates.
- F. That the substratum of the Respondent Modaraba has been lost, as the Modaraba has admittedly closed its operation and resultantly not doing any business since then. Reliance is placed on (PLD 1990 SC 763).
- G. That the accumulated losses of the Modaraba have exceeded more than fifty percent of the total amount subscribed by the Modaraba Certificate holders. The Modaraba Company, therefore, failed to arrest further deterioration in both in asset quality and performance of the Modaraba with the result that the accumulated losses have in

fact exceeded more than 100% of the paid up fund. The Modaraba, therefore, is liable to be wound up under section 23(1)(ii)(b) of the Ordinance. Reliance is place on 2009 CLD 85 Karachi.

- H. That in the circumstances mentioned above and under the provisions of the section 23 with all other applicable provisions of law, the Modaraba is liable to be wound up.
- I. That additional grounds may kindly be allowed to be raised during the proceedings of the petition.
- J. That in view of the above it is therefore in the interest of justice and also just and equitable that the Respondent Modaraba i.e First National Bank Modaraba may kindly be wound-up.



**VERIFICATION:**

Verified on oath at Lahore on this 3rd day of June, 2020 that the contents of the above affidavit are true and correct to the best of my knowledge and belief.



*Basma*  
Deponent

Certified that the above/under/back  
Was Declared on oath before me  
by Mr/Ms. Basma Aslam  
S/o, D/o, W/o Registrar Modaraba  
R/o Company Islamabad  
Identified by Mr. Council  
C.C.No: \_\_\_\_\_  
Identifier is "Pe: \_\_\_\_\_" ily Known to me"  
Date: 03/6/2020

MUHAMMAD ARSHAD RANA  
ADVOCATE HIGH COURT  
& OATH COMMISSIONER  
Lahore High Court, Lahore.  
Notification No-Gen/X-B, 9(b) 1  
Expiry Date: 06-11-2021



*Basma*  
Deponent



ANNEX - A

19

GOVERNMENT OF PAKISTAN



CERTIFICATE OF INCORPORATION

(Under section 32 of the Companies Ordinance, 1984 (XLVII of 1984))

Company Registration No. L 05372 of 1992-93

I hereby certify that "NATIONAL BANK MODARABA MANAGEMENT"  
COMPANY LIMITED

XX XX  
is this day incorporated under the Companies Ordinance, 1984  
(XLVII of 1984) and that the company is limited by shares.

XX XX  
Given under my hand at Lahore

this 6th day of August, 1992.

one thousand nine hundred and Ninety two

Fee Rs. 2,28,600/- (RUPEES TWO LACS TWENTY EIGHT THOUSAND  
SIX HUNDRED ONLY).



( ATTA MOHAMMAD KHAN )  
Joint Registrar  
of Companies

PCPPE-Lahore/2001/91-92/DCS&F-123-92-12,500 10044.

No-JRL/976

dt 6/8/92

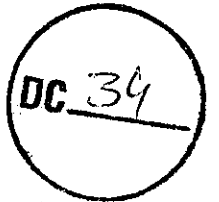
*Certified to be true Copy*

ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

GOVERNMENT OF PAKISTAN  
OFFICE OF THE REGISTRAR  
MODARABA COMPANIES AND MODARABA  
STATE LIFE BUILDING 7-BLUE AREA  
ISLAMABAD

ANNEX-B

20



MODARABA AUTHORIZATION CERTIFICATE

Certified that having considered the application for permission to float Modaraba under Section 8 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 by *M/s. National Bank Modaraba Management Company Limited* and having received the requisite certificate from Religious Board, and being satisfied that it would be in the public interest so to do, I, in exercise of the powers conferred under Section 11 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 do, hereby grant authorization to *M/S. Natinal Bank Modaraba Management Company Limited* to float the modaraba namely *Ist National Bank Modarba* subject to the conditions stated herein or those that may be prescribed or imposed from time to time.

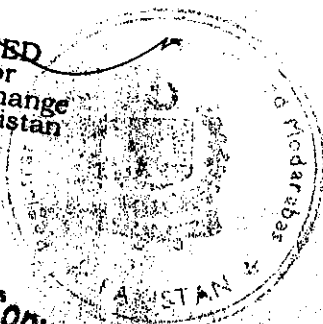
Issued under my signature and seal at Islamabad this 7th day of November, 1995

( *ee* )  
( MUHAMMAD YUNUS KHAN )  
REGISTRAR

MODARABA COMPANIES & MODARABA

*Received*  
*Tahir*  
*7/11/95*

ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad



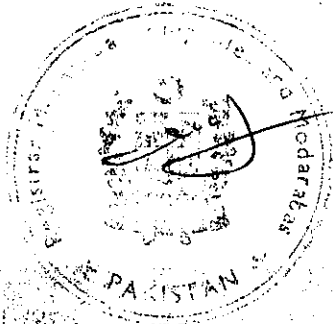
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CONDITIONS:

ANNEX-C

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1. The modaraba shall be floated within twelve months from the date of this authorization.
2. The modaraba shall not undertake any business other than those specified in the prospectus.
3. The modaraba shall not disinvest or create encumbrance in favour of any person on any part of the investment in the modaraba.
4. The modaraba certificates shall be listed for trading in Stock Exchange. If the application for listing of the modaraba is refused by the Stock Exchange, the company shall forthwith repay the money received by it from the applicants.
5. The modaraba certificates to be subscribed by the management company and/or sponsors, of the modaraba company shall not be transferred except with the prior written authorization of the Registrar.
6. No change shall be made in the directors of the modaraba company or management of the modaraba except with the prior written consent of the Registrar.
7. A report about the public offer and subscription, allotment basis, fulfillment of underwriting obligations and related matters shall be furnished to the Registrar within two months of the date of publication of the prospectus.
8. Dates of opening and closing of subscription lists as agreed by the Stock Exchange shall be incorporated in the prospectus. If these dates go beyond three months of the date of this certificate, then the prospectus shall be had cleared afresh before publication.
9. Underwriting commission shall not be payable on the shares to be taken up by the National Investment Trust.
10. The modaraba company shall comply with the conditions, if any, imposed by the Controller of Capital Issues in his consent order.



ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

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11. Details of the investment portfolio of the modaraba indicating with reference to each individual security/share, besides other matters, the name and face value of the securities/shares purchased, the prices at which they were purchased, their market value as on the last date of each half-year, percentage of holdings with reference to the Modaraba Fund, and the total value of the individual security/share, shall be furnished to the Registrar within one month from the close of each half-year.

12. The prospectus shall be published in the press not less than seven days and not more than thirty days before the date on which subscription list will open.

13. The modaraba company shall take a decision within ten days of the closure of subscription list as to what applications have been accepted, and shall refund, within ten days of decision, the application money to the applicants whose applications have not been accepted.

14. Dates of execution of material contracts shall be incorporated in the prospectus and verified photo copies thereof submitted to the Registrar before issue/publication of the prospectus.

15. The modaraba company shall not engage in any business which is of the same nature and competes with the business of the modaraba.

16. A duly signed final copy of the prospectus containing original certificate of the Auditors' shall be filed with the Registrar before issue/publication of the prospectus. ✓

17. The company shall set aside for the modaraba, free from any encumbrances, a portion of its paid-up capital not less than two and a half million rupees.

18. The objects outlined in the prospectus shall be achieved and the business operation conducted on the basis of business arrangements and agreements as already approved by Religious Board. In case any new arrangement is to be entered into, approval of the Religious Board shall be obtained.



ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

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19. A quarterly report duly signed by chief executive regarding operations of modaraba during quarter with number and nature of agreements executed by modaraba with different parties, shall be filed with the Registrar, by 7th of the month succeeding the quarter.

20. Future business plans, scheme, prospectus, expected rate of return and mode of distribution of profit etc. shall be filed with Registrar Modaraba within seven days, after a decision is made by Board of Directors, for further issue of Modaraba Certificates.

21. The contents of "prospectus" shall not be altered without prior written approval of the Registrar.

22. Five published copies of the "prospectus" along with copies of all Newspapers in which prospectus has been advertised shall be filed with Registrar within seven days of its publication.

23. All Modaraba Finance/Investment (Musharika, Murabaha and P&L) shall be subject to following conditions:-

- i) Commitment not to be more than 20% of paid up fund of modaraba and 20% of the capital of any company/individual etc.
- ii) The modaraba must disclose in its annual accounts all finance/investment exceeding 20% of paid up funds.
- iii) It will also give in its annual accounts an aged analysis of bad and doubtful receivable along with efforts made to recover the same.
- iv) It will disclose in its annual accounts all finance taken alongwith their utilization/investment during the year.



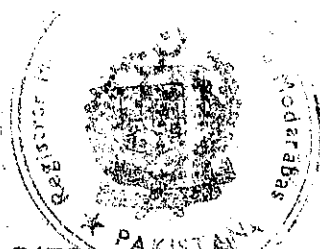
ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

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DC-3

- v) No accommodation will be made to the Chief Executive, Director Sponsor, Officer, their spouse, brother or sister or any of the lineal ascendants or descendants of the director or to firms and companies in which they have interest as partner, director or shareholders. (Major shareholders in this context would mean any person holding 5% or more capital).



(MUHAMMAD YUNUS KHAN)  
REGISTRAR  
MODARABA COMPANIES AND MODARABA

No.5(73)Reg.Mod/94-1114  
Islamabad 7th day of November, 1995.

C.C.

SAB, Kamli

*Atif*  
*Ahsan*  
*7-11-95*

ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

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THE COMPANIES ORDINANCE, 1984  
(SECTION 142)

NOTICE OF SITUATION OF REGISTERED OFFICE OR ANY CHANGE THEREIN

1. Incorporation Number	0028051		
2. Name of the Company	NATIONAL BANK MODARABA MANAGEMENT COMP		
3. Fee Paid (Rs.)	600.00	Name & Branch of the Bank	LAHORE, MCB - Nite Gumbad (0176)
4. Receipt No.	E-2016-509768		
5. The situation of registered office of the company was changed from (previous address)	5TH FLOOR National Bank of Pakistan Regional Head Quarters Building, 26 Mclagon Road Lahore		
6. The Registered Office of the company is now situated at	Ground floor, NBP RHQs Building, 26 Mclagon Road Lahore Lahore Punjab 540000		
6 1. Telephone Nos	04299213243		
6 2. Fax No, if any	04299213247		
6 3. Email Address	info@nbmodaraba.com		
7. With Effect from (date)	31/10/2016		
8. Signature of Chief Executive/Secretary			
9. Name of Signatory	All Abbess		
10. Designation	Secretary		
11. NIC Number of Signatory	3520158562511		
12. Date (DD/MM/YYYY)	10/11/2016		

ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

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1228783  
10/6/19

26

Form A

**THE COMPANIES ACT, 2017**  
**THE COMPANIES (GENERAL PROVISIONS AND FORMS) REGULATIONS, 2018**  
 [Section 130(1) and Regulation 4]

**ANNUAL RETURN OF COMPANY HAVING SHARE CAPITAL**

**PART-I**

(Please complete in typescript or in bold block capitals.)

- 1.1 CUIN (Registration Number) 

0	0	2	8	0	5	1
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- 1.2 Name of the Company 

NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED																			
---	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
- 1.3 Fee Payment Details    1.3.1 Challan No 

M-2019-056112									
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    1.3.2 Amount 

4,800									
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- 1.4 Form A made up to 

dd		mm		yyyy			
2	5	0	4	2	0	1	9
- 1.5 Date of AGM 

2	5	0	4	2	0	1	9
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**PART-II**

**Section-A**

- 2.1 Registered office address 

Groung Floor NBP RHQ Building 26 Mclagon Road Lahore																													
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- 2.2 Email Address: 

info@nbmodaraba.com																													
---------------------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
- 2.3 Office Tel. No.: 

042-99211200																													
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- 2.4 Office Fax No.: 

042-99213247																													
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- 2.5 Principal line of business 

Modaraba Management Company																													
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- 2.6 Mobile No. of Authorized officer (Chief Executive/ Director/ Company Secretary/Chief Financial Officer) 

0346-4694997																													
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- 2.7 **Authorized Share Capital**
- | Classes and kinds of Shares | No. of Shares | Amount      | Face Value |
|-----------------------------|---------------|-------------|------------|
| Ordinary Shares             | 15,000,000    | 150,000,000 | 10/-       |
|                             |               |             |            |
|                             |               |             |            |
- 2.8 **Paid up Share Capital**
- | Classes and kinds of Shares | No. of Shares | Amount      | Face Value |
|-----------------------------|---------------|-------------|------------|
| Ordinary Shares             | 10,500,000    | 105,000,000 | 10/-       |
|                             |               |             |            |
|                             |               |             |            |

Certified to be True Copy

ATIF BIAZ AHMED  
 Deputy Director  
 Securities and Exchange  
 Commission of Pakistan  
 Islamabad



2.9	<b>Particulars of the holding /subsidiary company, if any</b>		
	<b>Name of company</b>	<b>Holding/Subsidiary</b>	<b>% of shares held</b>
	National Bank of Pakistan	Holding	100%

**2.10 Chief Executive Officer**

<b>Name</b>	Abbas Azam												
<b>Address</b>	112 Riwaz Garden Lahore												
<b>NIC No</b>	3	5	2	0	2	2	1	7	6	2	2	8	5

**2.11 Chief Financial Officer**

<b>Name</b>	Farah Aslam												
<b>Address</b>	155 C Punjab Co-operative Housing Society Defence Road Lahore												
<b>NIC No</b>	3	5	2	0	1	5	5	6	6	6	2	3	6

**2.12 Secretary**

<b>Name</b>	Farah Aslam												
<b>Address</b>	155 C Punjab Co-operative Housing Society Defence Road Lahore												
<b>NIC No</b>	3	5	2	0	1	5	5	6	6	6	2	3	6

**2.13 Legal Advisor**

<b>Name</b>	Cornelius Lane & Mufti												
<b>Address</b>	Nawa-i-Waqt House, 4- Shahrah-e-Fatima Jinnah Lahore												
<b>NIC No</b>													

**2.14 Particulars of Auditor(s)**

<b>Name</b>	<b>Address</b>												
Anjum Asim Shahid Rahman Chartered Accountants	1-Inter Floor Eden Centre,43 Jail Road Lahore												

**2.15 Particulars of Share Registrar (If applicable)**

<b>Name</b>													
<b>Address</b>													
<b>e-mail</b>													

**Section-B**

**2.16 List of Directors as on the date annual return is made**

<b>Name of Director</b>	<b>Residential Address</b>	<b>Nationality</b>	<b>NIC (Passport No. if foreigner)</b>	<b>Date of Appointment</b>
-------------------------	----------------------------	--------------------	--	----------------------------

1. Mr Imran Malik	House # 12 C "q" Street Off Khayaban e Sehar Phase VI DHA Karachi	Pakistan I	4	2	3	0	1	4	4	1	4	5	8	7	5	30	07	20	18
2. Mr. Rehmat AH Hasnle	88/II, Khayaban-e- Tariq, Phase VI, DHA, Karachi	Pakistan I	3	5	2	0	1	2	4	6	7	5	1	0	3	08	08	20	17
3. Mr. Jamal Baquar	House # 85,12 <sup>th</sup> Street Khayaban e Sehar Phase VI DHA Karachi	Pakistan I	4	2	3	0	1	3	1	9	3	9	1	6	5	08	08	20	17
4. Mr Khawaja Waheed Raza	100/7  Saint  John's  Park  Lahore  Cantt	Pakistan I	3	5	2	0	1	1	5	9	9	6	4	2	1	19	10	20	16
5. Jamal Nasim	H.No.333, Street 7, PAF Falcon Housing Scheme, Shaheed-e- Millat Road, Karachi	Pakistan I	3	5	2	0	1	2	3	2	7	3	4	1	9	21	04	20	17
6. Muhammad Iqbal Hussain	House No 105 Street 589 Sector G-13/2 Islamabad	Pakistan I	6	1	1	0	1	0	8	2	0	0	2	8	1	21	04	20	17
7. Mr Abbas Azam	112, Riwarz Garden	Pakistan I	3	5	2	0	2	2	1	7	6	2	2	8	5	28	02	20	17

**2.17 List of members & debenture holders on the date upto which this Form is made**

[illegible]



5. In case a body corporate is a member, registration number may be mentioned instead of NIC number.
6. In case of foreign nationals, indicate "passport number" in the space provided for "NIC No." Pakistani nationals will only indicate "NIC No."
7. This form is to be filed within 30 days of the date indicated in S.No.1.4.

ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

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12/6/15  
12/4/19

FORM 29

THE COMPANIES ORDINANCE, 1984  
(Section 205)

PARTICULARS OF DIRECTORS AND OFFICERS, INCLUDING THE CHIEF EXECUTIVE, MANAGING AGENT, SECRETARY, CHIEF ACCOUNTANT, AUDITORS AND LEGAL ADVISER, OR OF ANY CHANGE THEREIN

Please complete in typescript or in bold black capitals.

1. CUIN (Incorporation Number) 

0	0	2	8	0	5	1
---	---	---	---	---	---	---

2. Name of the Company 

NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED
---

3. Fee Paid (Rs.) 

13	2	0	0
----	---	---	---

 Name & Branch of the Bank 

MCB - Nile Gumbad, LHR
------------------------

4. Receipt No. 

M-2019-037067
M-2019-041065

 Date 

0	2
1	2

0	4
0	4

2	0	1	9
2	0	1	9

5. Mode of payment 

Cash
------


6. Particulars:

Present Name in Full	NIC No or passport No. in case of Foreign National	Father's/ Husband's Name	Usual residential address	Designation	Nationality**	Business Occupation*** (if any)	Date of present appointment or change	Mode of appointment / change / any other Remarks
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
<b>6.1 New appointment/election:</b>								
Mr. Imran Malik	42301-4414587-5	Mr. Malik Muhammad Aslam Khan	House # 12 C "q" Street Off Khayaban e Sehar Phase VI DHA Karachi	Director	Pakistani	Service	30-07-2018	Nomination by NBP
Grant Thornton Anjum Rafiqan	N/A	N/A	1-inter floor, Eden Centre, 43 Jail Road, Lahore.	Statutory Auditors	N/A	Chartered Accountants firm	23-11-2018	Appointed by the Board
<b>6.2 Ceasing of office/Retirement/Resignation:</b>								

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Mr. Aamir Amin	42201-2174093-9	Muhammad Amin Umar	NIT 6 <sup>th</sup> Floor 402, Al Madina Pride, Fatima Jinnah Colony, Jamshed Road, Karachi	Director	Pakistani	Service	07-07-2018	Resignation
Ernst & Young Ford Rhodes Sidat Hyder	N/A	N/A	Mall View Building, 4 Bank Square P.O Box No 104 Lahore	Statutory Auditors	N/A	Chartered Accountants firm	23-11-2018	Casual Vacancy
6.3 Any other change in particulars relating to columns (a) to (g) above:								

7. Name of Signatory	Farah Aslam	8. Designation	Company Secretary							
9. Signatures of Chief Executive/ Secretary		10. Date	Day		Month		Year			
			1	2	0	4	2	0	1	9

\* In the case of a firm, the full name, address and above mentioned particulars of each partner, and the date on which each became a partner.  
\*\* In case the nationality is not the nationality of origin, provide the nationality of origin as well.  
\*\*\* Also provide particulars of other directorships or offices held, if any.

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ANNEX-G

34

THE COMPANIES ORDINANCE, 1984

COMPANY LIMITED BY SHARES

MEMORANDUM

AND

ARTICLES OF ASSOCIATION

OF

NATIONAL BANK MODARABA MANAGEMENT COMPANY  
LIMITED

Husain Shah Rahman,

Chartered Accountants

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ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad



[THE COMPANIES ORDINANCE 1984]

**MEMORANDUM OF ASSOCIATION  
OF  
NATIONAL BANK MODARABA MANAGEMENT  
COMPANY LIMITED**

(COMPANY LIMITED BY SHARES)

- I. The name of the Company is **NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED**.
- II. The Registered Office of the Company will be situated at Lahore in the Province of Punjab.
- III. The company will be a subsidiary of National Bank of Pakistan and the objects for which the Company is established will be governed by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the company will undertake any or all of the following business in and outside Pakistan, except for any activity which are inconsistent with Sharia'a:
  1. To initiate, sponsor, promote, float, organise, manage, administer, operate, modaraba funds and modarabas of all types and descriptions, mutual funds, unit trusts and other similar concerns either in syndicates or otherwise for the purpose of undertaking all activities which a modaraba can undertake under the law providing that none of these enterprises would be engaged in or the funds thereof invested in any venture; the activities of which are contrary to the Injunctions of Islam or which involve the element of riba in any form whatsoever.
  2. To invest or participate in and to collaborate or co-operate with any modaraba company, modaraba fund, modaraba, mutual fund, unit trust, and other similar concerns either in syndicates or otherwise providing that none of these enterprises is or would be engaged in or the funds thereof invested in any venture; the activities of which are contrary to the Injunctions of Islam or involve the element of riba in any form whatsoever.

5

3. To act as professional, ~~financial, investment~~ and technical consultants and advisors and provide or assist in providing of any professional, ~~financial, investment~~, technical and managerial advice or assistance to any undertaking or enterprise whatsoever.

4. To undertake and execute trusts of all kinds and also to undertake the office of Attorneys and to discharge the duties and functions incident thereto.

5. To act as nominee or agent either solely or jointly for any person or persons, company, corporation, government, state or province, or of any municipal or other authority or public body.

6. To hold in trust as trustee or nominee of any person or persons, company, corporation, government, state or province or of any municipal or other authority of public body and deal with, manage and turn to account any real and personal property of all kinds and in particular shares, stocks, debentures, securities, scrips, participation term certificates, terms finance certificates, finance certificates, musharika certificates, modaraba certificates, insurance policies, book debts, claims and choses-in-action, lands, buildings, business concerns and undertakings, mortgages, charges, annuities, patents, licences, and any interest of whatsoever kind in real or personal property or against any person, company, corporation or body.

7. To negotiate loans and to act as agents for the loans, payment, transmission, ~~investment and collection of money~~, and for the management and realisation of property subject to Companies Ordinance, 1984, and generally to transact all kinds of agency business except Managing Agency.

8. To furnish and to provide deposits and guarantee funds required in relation to any tender or application for any contract, concession, decree, enactment, property or privilege, or in relation to carrying out of any contract, concession, decree or enactment.

9. To subscribe for, take, acquire, underwrite, and deal in stocks, shares, bonds, mortgages, modaraba certificates, ~~participation term certificates~~, term finance certificates, obligations and securities of all kinds.

6/

3

*[Handwritten signature]*

10

To carry on and transact any kind of guarantee and indemnity business and any kind of counter-guarantee and counter-indemnity business.

11

To pay, satisfy or compromise any claims made against the Company which it may seem expedient to pay, satisfy or compromise, notwithstanding that the same may not be recoverable in law.

*[Handwritten signature]*

To undertake the office of receiver, liquidator, attorney and delegate, and to discharge the duties and functions incidental thereto under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980.

11 213

To keep for any company, government authority or body, any register relating to any stocks, funds, shares or securities or to undertake any duties in relation to the registration of transfers, the issue of certificates or otherwise.

12 124

To receive and hold securities and valuables of all kinds for custody and generally to carry on the business of a safe deposit company, also to collect and receive all dividends, share of profit and other payables or receivables in respect of any of the securities so held as allowed by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980.

*[Handwritten signature]*

13 1315

To take or concur in taking all such steps and proceedings as may seem best calculated to uphold and support the credit of the Company, and in particular to obtain the guarantee or indemnity of any company or person for the benefit of any person or company dealing with or concerned in the performance of any duty or obligation by the Company.

14 1448

To purchase or otherwise acquire and undertake all or any part of the business, property and liabilities of any person or company carrying on any business which the Company is authorised to carry on, or possess property suitable for the purposes of this Company.

15 1567

To enter into any arrangement with any government or authorities, supreme, municipal, local or otherwise, and to obtain from any such government or authority all rights, concessions and privileges that may seem conducive to the Company's objects or any of them.

*[Handwritten signature]*

16/18

To enter into any partnership or into any arrangement for sharing profits, union of interests, joint ventures, reciprocal concession or co-operation, with any person or company carrying on or engaged in or about to carry on or engage in any business or transaction which this Company is authorised to carry on or engage in, or any business or transaction capable of being conducted so as directly or indirectly to benefit this Company, and take or otherwise acquire, and hold shares or stocks in or securities of and to subsidise or otherwise assist any such company, and to sell, hold, re-issue, with or without guarantee, or otherwise deal with such shares or securities.

17/19

Generally to purchase, ~~exchange~~, hire or otherwise acquire any real or personal property and any rights or privileges which the Company may think necessary or convenient with reference to any of these objects, or acquisition of which may seem calculated to facilitate the realisation of any securities held by the Company, or to prevent or diminish any apprehended loss or liability, or which may seem capable of being profitably dealt with by way of re-sale or otherwise, and in particular any lands, buildings, ground rents, reversions, policies of assurance, life interests, choses-in-action, book debts and other assets.

18/20

To establish and support, or to aid in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit any of the employees or ex-employees of the Company or its predecessors in business, or any of the dependents or connections of any such persons, and to grant pensions and allowances to any such persons, dependants or connections and to make payments towards insurance thereof respectively, and generally to subscribe or guarantee money to or for charitable or benevolent objects, or to or for any exhibition, or to or for any public, general or useful object.

19/21

To sell or dispose of the undertaking of the Company or any part thereof for such consideration as the Company thinks fit, and in particular for shares, debentures or securities of any other company having object altogether or in part similar to those of this Company.

20/22

To promote any company or companies for the purpose of acquiring all or any of the property, rights and liabilities of this Company, or for any other purpose which may seem directly or indirectly calculated to benefit this Company.

21 23. To ~~invest~~ and deal with the moneys of the Company, not immediately required, upon such securities in such manner as may from time to time be determined.

22 24. To obtain any Act of the Government of Pakistan for enabling the Company to carry any of its objects into effect, or for effecting any modification of the Company's constitution, or for any other purpose which may seem expedient and to oppose any proceedings or applications which may seem calculated directly or indirectly or prejudice the Company's interests.

23 25. To borrow or secure the payment of money in such manner and on such terms as may seem expedient, and in particular by the creation of debentures or ~~debenture stock, participation term certificates~~ and term finance certificates, mortgages, charges or other securities whatsoever, whether specific or general, and whether perpetual or otherwise, and whether charged or not charged upon the whole or any part of the property of the Company, both present and future.

24 26. To procure the Company to be recognised in any country outside Pakistan.

25 27. To distribute any of the assets of the Company in specie amongst its members or any class or classes of members or any individual member in case of liquidation.

26 28. To pay all expenses of and incidents at the formation and launching of the Company, and to remunerate any parties for services rendered or promotion of the Company, or the conduct of its business.

27 29. To do all or any of the above things in any part of the world, and either as principals, agents, contractors, or otherwise, and either alone or in conjunction with others, and either by or through agents, sub-contractors or otherwise, and either for reward or gratuitously.

28 30. To sell, improve, manage, develop, exchange and enfranchise, mortgage, dispose of, turn to account or otherwise deal with all or any part of the property and rights of the Company.

29 31

To carry on any other modaraba business which may seem to the Company capable of being conveniently carried on in connection with the above or calculated directly or indirectly to enhance the value or render profitable any of the Company's property or rights.

30 32

To do all such other things as are incidental or conducive to the attainment of the above objects and so that the word "Company" in the clause shall be deemed to include any partnership or other body of persons whether incorporated or not incorporated and whether domiciled in Pakistan or elsewhere, and the intention is that the objects specified in each paragraph in this clause shall, except where otherwise expressed in such paragraph, be in no way limited or restricted by reference to or inference from the terms of any other paragraph of this clause or the name of the Company.

31 23

Notwithstanding anything written above in this clause, the Company or any modaraba floated by it shall not engage in any banking activity or any activity or business which is contrary to the injunctions of Islam or which may involve the element of riba in any form whatsoever and not to act as an investment, insurance, leasing and Managing Agency business or any other unlawful operation.

#### LIABILITY

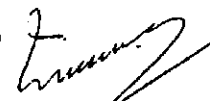

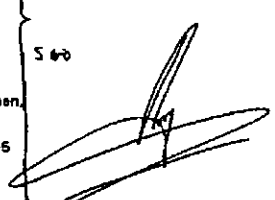
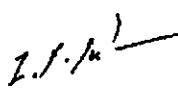
IV The liability of the members is limited.

#### SHARE CAPITAL

V

The Authorised Capital of the Company is Rs. 150,000,000/- (Rupees One hundred fifty million only) divided into 15,000,000 (Fifteen million) shares of Rs. 10/- (Rupees Ten) each.

We, the several persons whose names and addresses are subscribed hereto, are desirous of being formed into a Company in pursuance of these Memorandum of Association and we respectively agree to take the number of shares in the capital of the Company set opposite our respective names:

S.No.	Present And Former Name And Surname	Father's Name in Full	Present/ Former Nationality	Occupation/ Residential Address in Full	No. of Shares taken by each subscriber	Signature
1.	MR. INAM ELAH (Nominee of National Bank of Pakistan)	Mr. Fazal Elahi	Pakistani	Banker 44-D, Block-8, Razi Road, PECHS, Karachi	500	
2.	MR. SAEED AHMED KAZI (Nominee of National Bank of Pakistan)	Mr. Shamsuddin Kazi	Pakistani	Banker G-17/A, Block No.8 23 Park View Apartment, Clifton, Karachi	500	
3.	MR. MUHAMMAD YAQOUB VARDAG (Nominee of National Bank of Pakistan)	Mr. Ghulam Jilani	Pakistani	Banker 11 1/2A Street, Khyabara-Shaheen, Defence Housing Authority, Phase-5 Karachi 2) 6-4/28 Gurdee Singh Road Quetta	500	
4.	MR. ZAFAR IQBAL SALEEM (Nominee of National Bank of Pakistan)	Mr. Sheikh Fazal Karim	Pakistani	Banker 1) 8-Main Gulberg, Lahore 2) H. No. 289, Street No. 14, F-10/2, Islamabad	500	



S.No.	Present And Former Name And Surname	Father's Name in Full	Present/Former Nationality	Occupation/Residential Address in Full	No. of Shares taken by each subscriber	Signature
6.	MR. M. JAMEEL SHEIKH (Nominee of National Bank of Pakistan)	Mr. Amanat Ali	Pakistani	Banker C-103-E, Gulshan-e-Ravi, Faisal Park, Lahore	500	<i>[Signature]</i>
8.	DR. NAJAM PERWAIZ (Nominee of National Bank of Pakistan)	Ch. Beehr Ahmad	Pakistani	Banker 103/AI 13th Street Phase VI Defence Karachi	500	<i>[Signature]</i>
7.	MR. MUHAMMAD ASLAM BETHI (Nominee of National Bank of Pakistan)	Haji Rahim Bekheh	Pakistani	Banker Officer Colony Warsak Road Peshawar	500	<i>[Signature]</i>

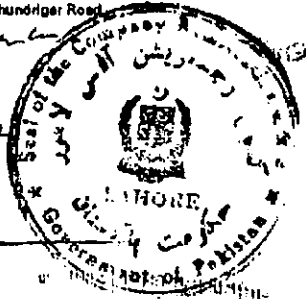
Dated this 15th day of July 1992

Witness to above signatures:

Full Name	Father's Name	Occupation	Full Address	Signature
Syed Mohammad Hussain	Syed Taquddin	Chartered Accountant	9th Floor State Life Building No.2 Wallace Road Off. J.I. Chundrigar Road Karachi	<i>[Signature]</i>

1. COMPANY REGISTRATION NO.
2. SERIAL NO. OF DOCUMENT
3. NAME OF THE COMPANY
4. BRIEF DESCRIPTION OF THE DOCUMENTS INCLUDING ITS CONTENTS
5. THE DATE ON WHICH THE DOCUMENTS WERE REGISTERED, FILED OR RECORDED.

*[Signature]*  
JOINT REGISTRAR OF COMPANIES  
LAHORE REGION



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ATIF BIAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad





[THE COMPANIES ORDINANCE 1984]

ARTICLES OF ASSOCIATION  
OF  
NATIONAL BANK MODARABA MANAGEMENT COMPANY  
LIMITED

(COMPANY LIMITED BY SHARES)

**PRELIMINARY**

1. Subject as hereinafter provided and except where the same are inconsistent with these Articles of Association, the regulations contained in Table A in the First Schedule to the Companies Ordinance, 1984 (hereinafter called "Table") shall apply to this Company.

**INTERPRETATION**

2. In these Articles unless there be something in the subject or context inconsistent therewith:
  - (a) "Articles" mean these Articles of Association as originally framed or from time to time altered by Special Resolution.
  - (b) "The Authority" means the Corporate Law Authority constituted under the Ordinance.
  - (c) "Chairman" means the Chairman for the time being of the Company.
  - (d) "Chief Executive" means the Chief Executive for the time being of the Company as defined in Section 2(1) (6) of the Ordinance.
  - (e) "The Company" means NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED.
  - (f) "Directors" mean the Directors for the time being of the Company or the Directors present at a duly convened meeting of Directors at which a quorum is present.



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- (g) "Member" means a person whose name is for the time being entered in the Register of Members by virtue of his being a subscriber to the Memorandum of Association of the Company or of his holding by allotment or otherwise any share, scrip or other security which gives him a voting right in the Company.
- (h) "Month" means calendar month according to the English Calendar.
- (i) "The Office" means the Registered Office for the time being of the Company.
- (j) "The Ordinance" or "the said Ordinance" means "The Companies Ordinance, 1984" as amended from time to time.
- (k) "Ordinary Resolution" means a resolution passed at a general meeting when the votes cast (whether on a show of hands or on a poll, as the case may be) in favour of the resolution by members present and voting in person or by proxy exceed the votes if any cast against the resolution.
- (l) "Proxy" includes an attorney duly constituted under a power of attorney.
- (m) "The Register" means the Register of Members to be kept pursuant to Section 147 of the Ordinance.
- (n) "The Seal" means the Common Seal or the Official Seal for the time being of the Company.
- (o) "The Secretary" means the Secretary for the time being of the Company.
- (p) "Special Resolution" has the meanings assigned thereto by Section 2(1) (36) of the Ordinance.
- (q) "In Writing" and "written" include printing and lithography and any other mode or modes of representing or reproducing words in a visible form.
- (r) Words imparting the singular number shall include the plural number and vice versa.
- (s) Words imparting the masculine gender shall include the feminine gender and vice versa.

- (i) Words imparting persons shall include any association, company, body corporate and corporations.
- (ii) The headnotes are inserted for convenience and shall not affect the construction of these Articles.
- (v) Subject as aforesaid any words or expressions defined in the Ordinance shall, except where the subject or context forbids, bear the same meaning in these Articles.

3. The Company shall be a **PUBLIC LIMITED COMPANY**

4. (i) The Authorised Capital of the Company is Rs. 150,000,000 (Rupees One hundred fifty million only) divided into 15,000,000 (Fifteen million shares) of Rs. 10 (Rupees ten) each.

- (ii) The minimum subscription on which the Directors may proceed to allotment, within the meaning of Section 68 of the Ordinance shall be Rupees two million five hundred thousands (2,500,000) only.

**INCREASE AND REDUCTION OF CAPITAL**

5. The Company in general meeting may from time to time by ordinary resolution increase its capital by such sum to be divided into shares of such amount as the resolution shall prescribe.
6. The Company may, by special resolution, reduce its share capital in any manner and with, and subject to any, incident authorised and consent required by law.

**GENERAL MEETING**

7. A General Meeting may be called at any time on atleast twentyone days clear notice.
8. No business shall be transacted at any General Meeting unless a quorum of Members as fixed by Board of Directors is present in person or by proxy at the time when the Meeting proceeds to business.

9. The instrument appointing a proxy shall be in writing under the hand of appointer or of his attorney duly authorised in writing under its common seal or under the hand of an officer or attorney so authorised.

### ***DIRECTORS***

10. The number of Directors shall not be less than seven in accordance with clause 174 of Companies Ordinance, 1984.
11. The names of First Directors of the Company are:
1. Mr. Inam Elahi
  2. Mr. Saeed Ahmed Kazi
  3. Mr. Muhammed Yaqoob Varday
  4. Mr. Zafar Iqbal Saleem
  5. Mr. M. Jameel Sheikh
  6. Dr. Najam Perwalz
  7. Mr. Muhammad Aslam Sethi
12. Directors nominated by National Bank of Pakistan on the Board of Directors may be changed, substituted, terminated any time at the discretion of National Bank of Pakistan.
13. The Directors shall appoint a Chairman from amongst themselves who shall be the Chairman of the Board. The Chairman shall be appointed for such period not exceeding three years and shall receive such remuneration as the Directors may determine.
14. The remuneration of a Director for attending meetings of the Board of Directors to persons other than the regularly paid Chief Executive and full time working Directors shall not exceed Rs. 500/- per meeting. No remuneration shall be paid to the Chief Executive and other Directors under this Article who work whole time on remuneration for the Company.

15. The Company shall not advance loan to any of its Directors, to any other concern with which such a Director is associated or interested in and to any other company which is not a subsidiary of the Company.
16. The Directors may from time to time at their discretion obtain finance under any modes of finance as defined in the Banking Tribunals Ordinance, 1984 or otherwise raise or borrow from any Director or Directors or any other person any sum or sums of money for purposes of the Company and may secure the same if so desired in any manner.
17. No Director shall be disqualified from his office for contracting with the Company either as vendor, purchaser, or otherwise; nor shall any such contract or arrangement entered into by or on behalf of the Company with any company or partnership of or in which any Director shall be a member or otherwise interested be avoided; nor shall any Director so contracting or being such member or so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office of the fiduciary relation thereby established, but the nature of the interest of such Director must be disclosed by him at the meeting of the Board of Directors at which the contract or arrangement is determined or, if his interest there exists or in any other case at the first meeting of the Directors after the acquisition of his interest. A general notice that a Director is a member of any specified firm or company and is to be regarded as interested in any subsequent transaction with such firm or company shall as regards any such transaction be sufficient disclosure under this clause and after such general notice it shall not be necessary to give any special notice relating to any particular transaction with such firm or company, provided that any such general notice shall expire at the end of the financial year in which it is given, but may be renewed for further period of one financial year at a time, by a fresh notice given in the last month of the financial year in which it would otherwise expire.
18. Any Director nominated by National Bank of Pakistan shall automatically cease to be a Director of the Company upon his ceasing to be in employment of the National Bank of Pakistan for any reason whatsoever including deputation to any other organisation and Regulation 50 contained in Table A in First Schedule of the Ordinance shall be read in conjunction with this Article.
19. The Seal of the Company shall not be affixed to any instrument except by authority of a resolution of the Board of Directors, and every instrument to which the seal of the Company is affixed shall be signed by two Directors or one Director and the Secretary or of some other person appointed by the Directors.

20. The quorum necessary for the transaction of the business of the Board of Directors may be fixed by the Directors and unless so fixed shall be four.
21. A resolution in writing signed by all the Directors shall be as effective for all purposes as a resolution passed at a meeting of the Board of Directors duly convened, held and constituted.
22. A Director may, subject to the approval of the Board of Directors, appoint any other person to be his alternate Director during an absence of not less than three months from Pakistan and such appointment shall have effect and such appointee while he holds office as an alternate Director shall be entitled to notice of meetings of Board of Directors and to attend and vote there at accordingly and generally to exercise all the rights and functions of such absent Directors subject to any limitation or restriction in the instrument appointing him, but he shall look to such Director solely for his remuneration and he shall ipso facto vacate office, if and when, his appointer returns to Pakistan or removes him by notice, in writing addressed to the Company.
23. The Directors may from time to time, by resolution appoint any person to be Secretary of the Company, and may at any time appoint a temporary substitute for the Secretary, who shall be deemed to be the Secretary during the terms of his appointment.
24. The Directors, Chairman, Chief Executive, Auditors, Secretary and other Officers for the time being of the Company, and the Trustees (if any) for the time being acting in relation to any of the affairs of the Company, and every of them and every of their heirs, executors and administrators shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses, which they or any of them, or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in, or omitted in or about the execution of their duty or supposed duty, in their respective offices or trusts, except such (if any) as they shall incur or sustain by or through their own wilful neglects or defaults respectively, and none of them shall be answerable for the acts, receipts, neglect or default respectively, and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them, or for joining in any receipt for the sake of conformity or for any bankers or other persons with whom any money or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for the insufficiency of or any deficiency in any security upon which any moneys of or belonging to the Company shall be placed out or invested or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto, except the same shall happen by or through their own wilful neglect or default respectively.

### **CHIEF EXECUTIVE**

25. The Board of Directors shall appoint the Chief Executive of the Company in accordance with Sections 198 and 199 of the Companies Ordinance, 1984.
26. The remuneration and other terms and conditions of appointment of Chief Executive shall be determined by Board of Directors.
27. The Chief Executive shall exercise such powers as conferred on him by the Board of Directors.
28. The Chief Executive may be removed in accordance with the provisions of section 202 of the Companies Ordinance, 1984.

### **DIVIDENDS**

29. The Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Directors.
30. Any general meeting may resolve that any money, investment or other assets forming part of the undivided profits of the Company standing to the credit of the Reserve Fund and available for dividends, be capitalised and divided into shares, and the said shares be allotted to the existing shareholders by way of bonus shares at the same rate at which dividend would be distributed among the existing shareholders.

### **BOOKS AND ACCOUNTS**

31. The Directors shall cause to be kept books of accounts as required under section 230 of the ordinance.
32. The books of accounts shall be kept at the registered office of the Company and shall be open to inspection by the Directors during business hours.
33. The Directors shall from time to time determine whether and to what extent and at what times, and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open for the inspection of members (not being Directors), and no member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by law or authorised by the Directors or by the Company in general meeting.

### **ACCOUNTS AND BALANCE SHEET**

- 34 The Directors as required by Sections 233 and 236 of the Companies Ordinance, shall cause to be prepared as to be laid before the Company in general meeting Profit and Loss Accounts, Balance Sheets, and reports of Directors and Auditors.
- 35 A Balance Sheet, Profit and Loss account, and reports referred to in the preceding Article shall be made out every year and laid before the Company in general meeting made up to a date not more than six months before such meeting.
- 36 A copy of the Balance Sheet and Profit and Loss Account and reports of Directors and auditors, at least twentyone days before the meeting, shall be sent to the persons entitled to receive notices of general meetings in the manner in which notices are to be given hereunder.

### **AUDITORS**

- 37 Auditors shall be appointed and their duties regulated in accordance with Sections 252 to 255 of the Companies Ordinance or any statutory modification thereof for the time being in force.

### **MODARABA AND OTHER SCHEME PRELIMINARY**

- 38 Every person participating in or dealing with modaraba, modaraba fund, mutual fund, unit or other financial scheme under "Redeemable Capital" as defined under clause (30-A) of sub-section (1) of section 2 of the Companies Ordinance, 1984 undertaken by the Company shall be deemed to have notice of and be bound by the applicable regulations made by the Directors from time to time unless he has been adversely affected by any amendment or alteration made subsequent to his participating or dealing with the Company.
- 39 Save as herein or in any regulation otherwise provided, the Company shall be entitled to treat the registered holder of any certificates as the absolute owner thereof and accordingly shall not, except as ordered by a Court of competent jurisdiction or as by statute required be bound to recognize any equitable or other claim to or interest in such certificates on the part of any other person.



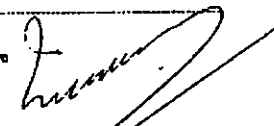
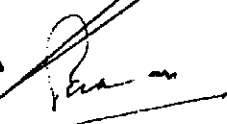
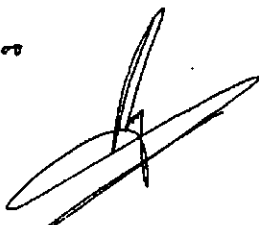
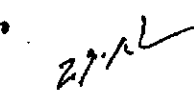
- 40 Decision of the Directors on any matter not provided for in these presents or in the regulations made hereunder or in the law relating to modaraba or other financial scheme shall be final and be binding on all certificate holders or other person dealing with the Company.

**TRANSFER AND TRANSMISSION OF  
MODARABA CERTIFICATES**

- 41 No transfer shall be registered unless a proper instrument of transfer has been delivered to the Company. The instrument of transfer of any modaraba or other certificates referred in clause 38 of this Article shall be signed both by the transferor and the transferee and the transferor shall be deemed to remain the holder of such modaraba or other certificates until the name of the transferee is entered in the register in respect thereof.
- 42 Transfer of modaraba or other certificates, referred in clause 38 of this Article, shall be effected by an instrument in the form prescribed by the Company.
- 43 No transfer shall be made to a person who is an infant or a person of unsound mind.
- 44 If the Director refuses to register a transfer of any Modaraba or other certificate referred in clause 38 of this Article they shall within two months after the date on which the transfer was lodged with the Company send to the transferee and the transferor notice of the refusal indicating reason for such refusal.
- 45 Every instrument of transfer shall be left at the office for registration accompanied by the modaraba or other certificates referred in clause 38 of this Article to be transferred and such other evidence as the Company may require to prove the title of the transferor, or his right to transfer the certificates. All instruments of transfer which shall be registered shall be retained by the Company but any instrument of transfer which the Directors may decline to register shall on demand, be returned to the person depositing the same.
- 46 A fee not exceeding Re. 1/- (Rupee One) may be charged for each transfer and shall if required by the Directors be paid before the registration thereof.

- 47 The transfer books and register of modaraba and other certificate holders referred in clause 38 of this Article may be closed during such time as the Directors think fit and not exceeding on the whole forty-five days in a year and not exceeding thirty days at any one time after giving twenty-one days' prior notice by advertisement in at least two newspapers circulating in the Province in which the registered office is situated.
- 48 The legal heirs of a deceased certificate holder referred in clause 38 of this Article according to Sharia'a (not being one of several joint-holders) shall be the only persons recognised by the Company, as having any title to the modaraba or other certificates registered in the name of such certificate holder and on the death of one or more of the joint-holders of any registered modaraba or other certificates, the survivors shall be the only persons recognised by the Company as having any title to or interest in such modaraba or other certificates.
- 49 Any person becoming entitled to modaraba or other certificates referred in clause 38 of this Article in consequence of the death or bankruptcy of any modaraba or other certificate holder upon producing such evidence that he sustains the character in respect of which he proposes to act under this clause and of his title thereto as the Directors think sufficient may, with the consent of the Directors (which they shall not be under any obligation to give) be registered as modaraba or other certificate holder in respect of such modaraba or other certificates or may subject to the regulations as to transfers herein before contained transfer such modaraba or other certificates. This clause is herein after referred to as the Transmission Clause.
- 50 The Board of Directors shall abide by the provisions and conditions laid down under the Capital Issues (Exemption) Order, 1967 and or any modification thereof.

We, the several persons whose names and addresses are subscribed hereto, are desirous of being formed into a Company in pursuance of these Articles of Association and we respectively agree to take the number of shares in the capital of the Company set opposite our respective names:

S.No.	Present And Former Name And Surname	Father's Name in Full	Present/ Former Nationality	Occupation/ Residential Address in Full	No. of Shares taken by each subscriber	Signature
1.	MR. INAM ELAHI (Nominee of National Bank of Pakistan)	Mr. Fazal Elahi	Pakistani	Banker 44-D, Block-6, Razi Road, PECHS, Karachi	500	
2.	MR. SAEED AHMED KAZI (Nominee of National Bank of Pakistan)	Mr. Sherpuddin Kazi	Pakistani	Banker G-17/A, Block No. 8, 23 Park View Apartment, Clifton, Karachi	500	
3.	MR. MUHAMMED YAQOOB YARDAG (Nominee of National Bank of Pakistan)	Mr. Ghulam Jilani	Pakistani	Banker 1) 1/2A Street, Khyab-e-Shaheen Defence Housing Authority, Phase-5 Karachi 2) 5-4/28 Gurdar Singh Road Quetta	500	
4.	MR. ZAFAR IQBAL SALEEM (Nominee of National Bank of Pakistan)	Mr. Sheikh Fazal Karim	Pakistani	Banker 1) 9-Main Gulberg, Lahore 2) H. No. 289, Street No. 14, F-10/2, Islamabad	500	

S.No.	Present And Former Name And Surname	Father's Name in Full	Present/ Former Nationality	Occupation/ Residential Address in Full	No. of Shares taken by each subscriber	Signature
6.	MR. M. JAMEEL SHEIKH (Nominee of National Bank of Pakistan)	Mr. Amanat Ali	Pakistani	Banker C-103-B, Gulshan-e-Ravi, Faisal Park, Lahore		<i>Mr. M. Jameel Sheikh</i>
6.	DR. NAJAM PERWAIZ (Nominee of National Bank of Pakistan)	Ch. Beshir Ahmed	Pakistani	Banker 103/11 12th Street Phase VI Defence Karachi		<i>Dr. Najam Perwaiz</i>
7.	MR. MUHAMMAD ASLAM SETHI (Nominee of National Bank of Pakistan)	Haji Rahim Bakht	Pakistani	Banker Officer Colony Warsak Road Peshawar		<i>Mr. Muhammad Aslam Sethi</i>
Total				3500		

Dated this 15th day of July 1992

Witness to above signatures:

Full Name	Father's Name	Occupation	Full Address	Signature
Syed Mohammad Hussain	Syed Tasaddiq	Chartered Accountant	8th Floor State Life Building No.2 Wallace Road Off. L.I. Chundrigar Road Karachi	<i>Syed Mohammad Hussain</i>

1. COMPANY REGISTRATION NO.
2. SERIAL NO OF DOCUMENT
3. NAME OF THE COMPANY
4. BRIEF DESCRIPTION OF THE DOCUMENT INCLUDING ITS ENCLOSURES
5. THE DATE ON WHICH THE DOCUMENT REGISTERED, FILED OR RECORDED.

*Atif Ejaz Ahmed*  
JOINT REGISTRAR OF COMPANIES  
LAHORE REGION



**ATIF EJAZ AHMED**  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

*Certified to be True Copy*

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THE INVESTORS ARE ADVISED IN THEIR OWN INTEREST TO READ THE CONTENTS OF THE PROSPECTUS CAREFULLY ESPECIALLY THE RISK FACTORS GIVEN AT PARA 5.10 BEFORE MAKING ANY INVESTMENT DECISION.

PROSPECTUS

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ANNEX - H



FIRST NATIONAL BANK MODARABA

Managed By



National Bank Modaraba Management Company Limited  
(A subsidiary of National Bank of Pakistan)

Certified to be True Copy

Arrangers & Advisors to the Issue  
ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad  
FAYSAL BANK Limited

PUBLIC ISSUE OF 10,000,000 MODARABA CERTIFICATES  
OUT OF A TOTAL OF 25,000,000 MODARABA CERTIFICATES  
OF RS. 10/- EACH AT PAR

Underwritten by

FAYSAL BANK Limited  
Pakistan Industrial Credit  
and Investment  
Corporation Limited  
Dawood Leasing  
Company Limited  
Orix Investment Bank  
Pakistan Limited

PUBLIC SUBSCRIPTION ON  
FROM THURSDAY, OCTOBER 23, 2003 TO FRIDAY, OCTOBER 24,  
DURING BANKING HOURS

DATE OF PUBLICATION: THURSDAY, OCTOBER 16, 2003

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Signatories to the Prospectus  
 Memorandum of Association of  
 National Bank Modaraba Management Company Ltd.  
 Application Form

**PART I****1. APPROVALS AND LISTING ON THE STOCK EXCHANGES****1.1 APPROVAL OF THE SECURITIES & EXCHANGE COMMISSION OF PAKISTAN**

Approval of the Securities & Exchange Commission of Pakistan (the "Commission") as required under Section 57(1) of the Companies Ordinance, 1984 (the "Companies Ordinance") has been obtained for the issuance, circulation and publication of this Prospectus.

**It must be distinctly understood that in giving this approval, the Securities & Exchange Commission of Pakistan does not take any responsibility for the financial soundness of any scheme or for the correctness of any of the statements made or opinions expressed with regard to them.**

**1.2 AUTHORISATION FOR THE ISSUE**

Authorisation has been granted under the Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980 – (the "Modaraba Ordinance") for the floatation of the FIRST NATIONAL BANK MODARABA (the "Modaraba"). The Religious Board constituted under the provisions of Section 9 of the Modaraba Ordinance has certified that the business proposed to be undertaken by the Modaraba is not opposed to the injunctions of Islam.

**1.3 CLEARANCE OF THE PROSPECTUS BY THE STOCK EXCHANGES**

The Prospectus of the Modaraba has been cleared by the Karachi Stock Exchange (Guarantee) Limited (the "KSE") and Lahore Stock Exchange (Guarantee) Limited (the "LSE") in accordance with the requirements under their listing regulations. **While clearing the Prospectus, the Stock Exchanges neither guarantee the correctness of the contents of the Prospectus nor the viability of the Modaraba.**

**1.4 FILING OF THE PROSPECTUS**

The Modaraba Company as required under rule 20(2) of the Modaraba Companies and Modaraba Rules, 1981 (the "Modaraba Rules") has - filed with the Registrar of Modaraba Companies and Modaraba, Islamabad (the "Registrar Modaraba") a copy of this Prospectus signed by all the Directors of the Modaraba together with the following documents attached thereto:

- (a) Letter dated August 13, 2003 from M. Yousuf Adil Saleem & Co., Chartered Accountants consenting to the issue of Prospectus, which contains in Part VI certain statements and reports issued by them as experts (which consent has not been withdrawn) under Section 57(5) of the Companies Ordinance.
- (b) Copies of contracts and agreements mentioned in Part VIII of this Prospectus under Section 57(4) of the Companies Ordinance.
- (c) Written confirmations of the Auditors, Legal Advisor and Bankers to the Issue, mentioned in this Prospectus consenting to act in their respective capacities, as required under Section 57(5) of the Companies Ordinance.
- (d) Consent of Directors and Chief Executive of the Modaraba to their respective appointments being made and their having been named or described as such Directors and Chief Executive in this Prospectus and the Modaraba Company has filed written confirmations of such consents, as required under Section 184 of the Companies Ordinance.

**1.5 LISTING ON STOCK EXCHANGES**

Applications have been made to the Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited for permission to deal in and quotation of the certificates of the Modaraba.

If for any reason, the applications for formal listing are not accepted by the Stock Exchanges, The National Bank Modaraba Management Company Limited (the "Modaraba Company") undertakes to

## FIRST NATIONAL BANK MODARABA

publish immediately in the press a notice to that effect and thereafter to refund the application money to the applicants in accordance with the provisions of Section 72 of the Companies Ordinance.

#### 1.6 CONDITIONS IMPOSED BY REGISTRAR MODARABA ON MODARABA COMPANY

While granting registration to the Modaraba Company, the Registrar Modaraba Companies and Modaraba on Modaraba Company had, inter alia, imposed the following conditions:

- (i) The Modaraba Company shall make such investments as may be required in terms of the Prospectus for floatation of a modaraba.
- (ii) Subscription in compliance to Section 17(3) of Modaraba Ordinance will be in nature of permanent investment of the Modaraba Company in the Modaraba free from encumbrances for all time which will not be disinvested during the life of the Modaraba.
- (iii) The Modaraba Company shall undertake such business as is approved by the Registrar Modaraba in terms of the Prospectus.
- (iv) The promoters, sponsors or persons holding controlling interest shall not transfer any shares held by them without the prior permission of the Registrar Modaraba in writing.
- (v) The Modaraba Company shall furnish its annual audited accounts along with the Directors' Report to the Registrar Modaraba immediately on issue of the same to the shareholders.
- (vi) An amount of not less than Rs.2.5 million shall be set aside apart free from any encumbrance in respect of each Modaraba to be floated by the Modaraba Company and that the particulars thereof shall be furnished to the Registrar Modaraba along with the application for floatation of each Modaraba.
- (vii) No change shall be made in the Modaraba Company's major shareholders and directors without prior approval of the Registrar Modaraba.

#### 1.7 CONDITIONS IMPOSED BY THE REGISTRAR MODARABA ON THE MODARABA

- (i) The total exposure of the FIRST NATIONAL BANK MODARABA to any single person or group shall not at any point of time exceed 20% of the equity of the Modaraba.
- (ii) The sponsors/promoters shall not enter into any buy-back/re-purchase agreement or any other arrangement which involves guaranteed returns.
- (iii) A Modaraba doing leasing business shall not, without the approval in writing of the Registrar Modaraba, purchase anything from, or sell anything to, any of its directors, officers, employees or person who either individually or in concert with their close relatives beneficially own 10% or more than of the equity or other securities with voting rights, if any.
- (iv) A Modaraba doing leasing business shall submit quarterly reports to the Registrar Modaraba Islamabad in the manner prescribed.
- (v)
  - a. A Modaraba doing leasing business shall fulfill the conditions imposed by the C.B.R. while approving it as a leasing company for the purposes of the 3rd schedule to the Income Tax Ordinance, 2001.
  - b. The lessee shall not sublet the leased asset without consent of lessor.
- (vi) The Modaraba shall comply with all the conditions of the Modaraba authorization Certificate of Registrar Modaraba.



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FIRST NATIONAL BANK MODARABA

PART II

2. MODARABA FUND AND RELATED MATTERS

2.1 MODARABA FUND

Number of Certificates		Amount in Rs.
	<b>AUTHORISED</b>	
<u>60,000,000</u>	Modaraba Certificates of Rs.10/- each	<u>600,000,000</u>
	<b>SUBSCRIBED AND PAID UP</b>	
	Modaraba Certificates of Rs.10/- each fully paid in cash by:	
	<b>Sponsors</b>	
<u>7,500,000</u>	National Bank Modaraba Management Company Limited	75,000,000
	<b>Pre- IPO Placements</b>	<b>Rupees</b>
1,875,000	PICIC	18,750,000
1,875,000	Bank Alfalah Limited	18,750,000
1,500,000	Faysal Bank Limited	15,000,000
1,500,000	The Bank of Punjab	15,000,000
375,000	Dawood Leasing Company Limited	3,750,000
<u>375,000</u>	Orix Investment Bank Pakistan Limited	<u>3,750,000</u>
<u>7,500,000</u>		75,000,000
	<b>PRESENT ISSUE</b>	
	Now offered for subscription at par in cash, by full payment on application, as follows:	
<u>10,000,000</u>	General Public	<u>100,000,000</u>
<u>25,000,000</u>	<b>TOTAL AFTER THE PRESENT ISSUE</b>	<u>250,000,000</u>

The sponsors shall, all the times, retain at least 10% percent of the capital of the Modaraba.

2.2 OPENING AND CLOSING OF SUBSCRIPTION LIST

THE SUBSCRIPTION LIST WILL "INSHA ALLAH" OPEN AT THE COMMENCEMENT OF BANKING HOURS ON THURSDAY, OCTOBER 23, 2003 AND WILL CLOSE ON FRIDAY, OCTOBER 24, 2003 AT THE CLOSE OF BANKING HOURS.

2.3 INVESTOR ELIGIBILITY

All Pakistani residents, provident fund/trusts, pension/gratuity funds (subject to the terms of their Trust Deed) and corporate entities (to the extent permitted by their constitutive or corporate documents, as the case may be) are allowed to subscribe to the certificates offered to the general public.

2.4 MINIMUM AMOUNT OF APPLICATION AND BASIS OF ALLOTMENT OF MODARABA CERTIFICATES

- (a) The minimum amount of application for subscription of Modaraba Certificates is Rs.5,000/-.
- (b) Application for certificates below the total value of Rs.5,000/- shall not be entertained.
- (c) Fictitious and multiple (i.e. more than one) applications are prohibited and such applicants' money shall be liable to confiscation under Section 18-A of the Securities and Exchange Ordinance, 1969.

- (d) Application must be made for certificates of Rs.5,000/- or in multiples thereof.
- (e) If the certificates to be issued to the general public are sufficient for the purpose to accommodate all the applications, all applications shall be accommodated.
- (f) If the issue is oversubscribed both in terms of number of applications and amount, the certificates will be allotted by conducting computer balloting in the presence of the representatives of the KSE and LSE.
- (g) If the issue is oversubscribed in terms of amount only, then all applications shall be accommodated initially for certificates of Rs.5,000/- each and the balance certificates shall be allotted on pro-rata basis to all applicants who applied for certificates in multiples of Rs.5,000/-.
- (h) Allotment of certificates will be subject to scrutiny of applications for subscription.

## 2.5 REFUND OF SUBSCRIPTION MONEY TO UNSUCCESSFUL APPLICANTS

The Modaraba Company shall take a decision within 10 days of the closure of subscription list as to which applications have been accepted or are successful and refund the money in cases of unaccepted or unsuccessful applications within 10 days of such decision as required under the provisions of Section 71 of the Companies Ordinance.

As per sub section (2) of Section 71 of the Companies Ordinance, if the refund as required under sub section (1) of Section 71 of the Companies Ordinance is not made within the time specified therein, the Directors of the Modaraba Company shall be jointly and severally liable to repay the money with surcharge at the rate of one and a half percent for every month or part thereof, from the expiration of the 15<sup>th</sup> day, and in addition to a fine not exceeding Rs.5,000/- and in case of a continuing offence to a further fine not exceeding Rs.100/- for every day after the said 15<sup>th</sup> day on which the default continues.

Provided that a Director shall not be liable if he proves that the default in making the refund was not due to any misconduct or negligence on his part.

## 2.6 MINIMUM SUBSCRIPTION FOR ALLOTMENT

The minimum subscription on which the Directors will proceed to allot Modaraba Certificates is the full amount of the issue of Rs. 250,000,000 (Rupees Two Hundred and Fifty Million) out of which Rs.75 million has already been subscribed in cash by the Modaraba Company.

## 2.7 PRINCIPAL PURPOSE OF THE USE OF SUBSCRIPTION MONEY

The detailed purpose of the use of subscription money is given under para 5.2 of Part V of this Prospectus. Initially the main activities of First National Bank Modaraba shall be following:

- (a) Arranging syndicate leasing with other leasing companies and/or extending Islamic financing to credit worthy customers including national as well as multinational conglomerates.
- (b) Trading in the listed non-interest bearing securities both equity and non-equity instruments.

## 2.8 INTEREST OF CERTIFICATE HOLDERS

None of the certificate holders of the issued certificates of the Modaraba have any special or other interest in the property or profit of the Modaraba other than that as holders of the certificates in the fund of the Modaraba, except the following:

Sr. No.	Underwriters of the Issue interested in the Underwriting Commission	No. of Shares	Amount (Rs.)
1.	Faysal Bank Limited	3,500,000	35,000,000
2.	PICIC	2,500,000	25,000,000
3.	Dawood Leasing Company Limited	2,500,000	25,000,000
4.	Orix Investment Bank Pakistan Limited	1,500,000	15,000,000
	Total	10,000,000	100,000,000

Sr. No.	Arrangers & Advisors to the Issue interested in the Placement Fee
1.	Faysal Bank Limited

## **2.9 ISSUE AND DESPATCH OF MODARABA CERTIFICATES**

The Modaraba Company will despatch Modaraba certificates to successful applicants through their bankers to the issue or credit to the respective Central Depository System (CDS) accounts of the successful applicants based on the option exercised by the applicants within thirty (30) days of the closing of subscription as per listing regulations of the Stock Exchanges.

Modaraba certificates will be issued either in scrip-less form in the CDS or in the shape of physical scrips on the basis of option exercised by the successful applicants. Modaraba certificates in the physical scrips shall be despatched to the Bankers to the Issue whereas scrip-less modaraba certificates shall be credited through book entries in the respective CDS accounts maintained with the Central Depository Company of Pakistan Limited (CDC).

The applicants who opt for issuance of certificates in scrip-less form in the CDS should fill in the relevant columns of the application form.

If the National Bank Modaraba Management Company Limited makes a default in complying with the requirements of listing regulations, it shall pay to the Stock Exchanges a penalty of Rs.500/- per day during which the default continues. The Stock Exchanges may also notify the fact of such default and the name of the Modaraba by notice and also by publications in its Ready-Board Quotation.

## **2.10 TRANSFER OF CERTIFICATES**

### **Physical Scrips**

The Directors of the Modaraba shall not refuse to transfer any fully paid certificates unless the transfer deed for any reason is defective or invalid under the provisions of Section 77 of the Companies Ordinance, provided that the Modaraba Company shall within 30 days from the date on which the instrument of transfer was lodged with it, notify the defect or invalidity to the transferee who shall, after the removal of such defect or invalidity be entitled to re-lodge the transfer deed with the Shares Registrars of the Modaraba.

### **Transfer Under Book Entry System**

The Modaraba certificates maintained within CDS in the book entry form, shall be transferred in accordance with the provisions of the Central Depositories Act, 1997 and the CDC Regulations.

## **2.11 CERTIFICATES ISSUED SINCE FLOATATION OF MODARABA**

Since, obtaining authorization for floatation of Modaraba on November 7, 1995, 7,500 million Modaraba Certificates of Rs.10/- each have been issued, against subscription in cash, to the Modaraba Company.

## **2.12 DIVIDEND POLICY**

The rights in respect of capital and dividends attached to each certificate would be the same.

The Board of Directors of the Modaraba Company may from time to time pay to certificate holders such interim dividend as appear to the Directors to be justified by the profits of the Modaraba. No dividend shall be paid otherwise than out of the profits of the Modaraba for the year or any other undistributed profits. No unpaid dividends shall bear interest or markup against the Modaraba.

The dividend shall be paid within the period laid down under the listing Regulation of KSE/LSE and in the Modaraba Companies and Modaraba Rules, 1981.

## **2.13 MODE OF DISTRIBUTION OF PROFITS**

Not less than 90% of the net income in respect of the Modaraba's business activities, (determined after charging the management fee upto 10% and after setting aside the mandatory reserve as per SECP's Prudential Regulations for Modarabas) is proposed to be distributed at least once in every year to the certificate holders in proportion to the number of certificates held by them. Distribution will be in the form of cash dividends and / or bonus certificates.

**2.14 DEDUCTION OF WITHHOLDING TAX**

The profit received by the Certificate holders will be subject to deduction of withholding tax on the following basis:

	<u>Rate</u>
• If received by Public Company and /or Insurance Company	5%
• If received by any other person	10%

**2.15 ELIGIBILITY FOR DIVIDEND**

All Modaraba Certificate holders shall be eligible for any distribution whenever declared.

Except to the extent otherwise specified by the Registrar Modaraba if any for reasons to be recorded, the new Modaraba Certificates shall rank pari passu with the existing certificates in all matters including the right to such bonus and dividend as may be declared subsequent to the date of issue of such new certificates.

**2.16 DEDUCTION OF ZAKAT**

Dividend distribution will be subject to deduction of Zakat at source, pursuant to the provisions of the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

**2.17 TAX EXEMPTIONS**

Under Clause 100 of Part – I of the Second Schedule to the Income Tax Ordinance, 2001 the income of the Modaraba, not arising from trading activities, will be exempt from tax subject to distribution of at least 90% of its net income to the certificate holders, after transferring requisite amount to reserves in accordance with the Prudential Regulations for Modarabas. Provided further that with effect from the first day of July 1999 for the purpose of determining the distribution of 90% profits, the profits distributed through bonus certificates or shares to the certificate holders shall not be taken into account.

**2.18 FUTURE CAPITALIZATION**

The Modaraba may make a right or bonus issue of Modaraba Certificates, subject to approval of the Registrar Modaraba, as deemed necessary for the business operations of the Modaraba, in accordance with the Modaraba Ordinance and the Modaraba Rules.

**2.19 EXEMPTION FROM CAPITAL GAINS**

Capital gains derived from the sale of listed Modaraba Certificates are presently not liable to income tax, pursuant to Clause (110) of Part 1 of the Second Schedule of the Income Tax Ordinance, 2001. This exemption is presently available upto income year ending June 30, 2005.

## PART III

## 3. UNDERWRITING, COMMISSION, BROKERAGE AND EXPENSES OF THE ISSUE

## 3.1 UNDERWRITING

The present public issue of 10,000,000 Modaraba Certificates of Rs. 10 each, offer at par, has been fully underwritten as under:

	Names of Underwriters	No. of Shares	Amount (Rs.)
1.	Faysal Bank Limited	3,500,000	35,000,000
2.	PICIC	2,500,000	25,000,000
3.	Dawood Leasing Company Limited	2,500,000	25,000,000
4.	Orix Investment Bank Pakistan Limited	1,500,000	15,000,000
	<b>Total</b>	<b>10,000,000</b>	<b>100,000,000</b>

If and to the extent, Modaraba Certificates hereby offered are not subscribed and paid for in cash in full by the closing of the subscription list, the underwriters shall, within 10 days of being duly called upon by the Modaraba Company to do so, subscribe and pay for or procure subscribers to subscribe and pay in cash in full those Modaraba Certificates not so subscribed, in proportion of their underwriting commitments.

In the opinion of the Directors of the Modaraba Company, the resources of the Underwriters are sufficient to discharge their aforesaid underwriting commitments.

## 3.2 NO BUY-BACK / REPURCHASE AGREEMENT

**THE UNDERWRITERS HAVE NOT ENTERED INTO ANY BUY-BACK OR REPURCHASE AGREEMENT WITH THE SPONSORS OR ANY OTHER PERSON IN RESPECT OF THIS PUBLIC ISSUE.**

## 3.3 UNDERWRITING COMMISSION

The underwriters have been paid underwriting commission @ 0.50% on the amount of Public Offering underwritten by them. No take up commission shall be paid to the underwriters on the amount of issue actually taken up by them by virtue of their respective underwriting commitments.

## 3.4 COMMISSION TO THE BANKERS TO THE ISSUE

A commission not exceeding 0.50% of the amount collected in respect of successful applicants of the Modaraba Certificates will be paid to the bankers to the issue for services to be rendered by them in connection with this issue. No commission shall be paid to the bankers in respect of Modaraba Certificates subscribed by the underwriters by virtue of their respective underwriting commitment.

## 3.5 BROKERAGE

Brokerage will be paid to the members of the KSE and LSE at the rate of 1% of the paid up value of Modaraba Certificates actually sold through them. No brokerage shall be payable in respect of Modaraba Certificates taken up by the underwriters by virtue of their respective underwriting commitment.

## 3.6 EXPENSES OF THE ISSUE

The preliminary expenses payable by the Modaraba and expenses of the proposed issue to the public inclusive of cost of organization and floatation of the Modaraba, cost of printing, publication and distribution of this Prospectus, underwriting commission, commission to the bankers to the issue and brokerage to the members of the Stock Exchanges etc. are estimated not to exceed Rs.10.00 million. The estimated preliminary expenses and expenses to the issue, as described below, shall be paid by the Modaraba and shall be written off over 5 years.

Expense Category	Amount (Rs.)
Underwriting commission *	500,000
Commission to bankers to the issue *	500,000
Brokerage to members of the Stock Exchanges *	1,000,000
Initial and Annual Listing Fee to Stock Exchanges	807,143
Application Fee for authorization to float Modaraba	4,537,500
Securities & Exchange Commission of Pakistan processing fee	25,000
Central Depository Company Charges	75,000
Consultants to the Issue & Computer Services	225,000
Pre-IPO Placement Fee	800,000
Other cost of printing, publishing, advertising & distribution of the Prospectus & Applications Form etc.	1,530,357
<b>Total</b>	<b>0,000,000</b>

\* Represents maximum possible expenses

**PART IV****4. THE MODARABA COMPANY****4.1 INTRODUCTION TO THE MANAGERS OF THE FIRST NATIONAL BANK MODARABA, "NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED"**

**4.1.1** NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED was incorporated under the Companies Ordinance 1984 on August 06, 1992. It was registered as Modaraba Management Company under the Modaraba Ordinance on October 12, 1994.

**4.1.2** NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED is a wholly owned subsidiary of National Bank of Pakistan. National Bank is presently operating with a network of 1204 branches.

**4.1.3** As a part of the National Bank family Modaraba Management Company will have access to financial acumen, expertise and the National Bank's large network. The synergy between the National Bank of Pakistan and the Modaraba Company is expected to provide unique business and operational advantages to the Modaraba Company and the Modaraba.

**4.2 CAPITAL**

The Authorized Capital of National Bank Modaraba Management Company Limited is Rs. 150,000,000 divided into 15,000,000 ordinary shares of Rs. 10/- each with a paid-up capital of Rs. 105,000,000.

The investment in the Modaraba Company has been made by the National Bank of Pakistan from current account of the depositors to eliminate the element of Riba in the amount invested.

**4.3 OBJECTS OF THE MODARABA COMPANY**

The memorandum of association of the Modaraba Company specifies the objects of the Modaraba Company which are to initiate, sponsor, promote, float, organize, manage, administer and operate Modaraba funds and Modarabas of all types and description and other similar concerns either in syndicate or otherwise subject to the approval of Registrar of Modaraba Companies and Modaraba under the Modaraba Companies & Modaraba (Floatation & Control) Ordinance, 1980 provided that none of these enterprises would be engaged in or the funds thereof invested in any venture, activities of which are contrary to the injunctions of Islam or which involve the element of riba in any form.

It is envisaged that the Modaraba Company would float a series of Modaraba for undertaking various business ventures in accordance with Section 17 of the Modaraba Ordinance. Further, the Modaraba Company will not compete with the business to be carried out by the Modarabas floated by it.

**4.4 THE MODARABA'S MISSION**

**4.4.1** The fundamental mission of the FIRST NATIONAL BANK MODARABA is to seek the pleasure of Allah through making its humble contribution in the transformation of our mercantile and financial system and business dealings in accordance with the principles enshrined in the Sharia. We seek Allah's guidance and blessing in understanding and implementing Allah's will in the matter of trading and Riba in accordance with the practices of his Prophet (P.B.U.H.).

**4.4.2** The fundamental issue is that Allah and His Prophet (P.B.U.H) have prohibited Riba and have blessed trading. The FIRST NATIONAL BANK MODARABA will promote mercantile, industrial, financial and advisory activities in spirit of Islam and absolute submission to the will of Allah in tradition of his Prophet (P.B.U.H).

**4.4.3** The Modaraba will maintain a close liaison with the experts and righteous Ulema-i-Din to seek guidance and inspiration in all its activities and systems.

**4.4.4** In all the business dealings of the Modaraba, its internal environment and in the inter-personal relationship; the rights of Allah, the rights of all the Certificate holders, the rights of our investors and customers and all others will be sincerely recognized and safeguarded.

**4.5 PROMOTERS AND MANAGERS OF MODARABA COMPANY**

The Board of Directors of the Modaraba Company consists of seven members representing National Bank of Pakistan. These representative Directors shall ensure smooth operations and functioning of the Modaraba.

**PART V****5. MODARABA'S OBJECTIVES, BUSINESS AND PROSPECTS****5.1 TYPE OF MODARABA**

The FIRST NATIONAL BANK MODARABA is a perpetual, multi-purpose and multi-dimensional Modaraba.

**5.2 THE MODARABA'S BUSINESS OBJECTIVES**

- (a) The management of National Bank Modaraba Management Company Limited and the FIRST NATIONAL BANK MODARABA will ensure that all the business transactions and dealings undertaken by the Modaraba, including investments, resource mobilization, financial advisory services and underwriting shall conform with the Sharia. The operations hereunder for which agreements/ instruments/ arrangements have not been approved will be undertaken only after obtaining approval of the instruments and arrangements from the Religious Board for conducting such operations.
- (b) The scope of Modaraba's business activities are described in the following paragraphs. All the following operations shall be carried out strictly in accordance with Sharia and the agreements, instruments and arrangements approved by the Religious Board from time to time. The Modaraba shall not transact any business itself which involves the element of 'Riba' directly or indirectly nor shall participate in a business project violative of the Injunctions of Sharia.

**5.2.1 FINANCE LEVERAGED TRADING**

- (i) Encourage entrepreneurial activity by undertaking finance leveraged trading using Musharika, Morabaha, Modaraba and other permissible Islamic modes of finance leveraged trading.
- (ii) The finance leveraged trading will include following categories:
  - (a) Trade inventory
  - (b) Stores inventory
  - (c) Export sales orders/commitments
  - (d) Import commitments
  - (e) Local sales orders/commitments
- (iii) The financial leveraged trading transactions shall be governed by the following principles:
  - (a) The mode of financing used shall be Musharika, Morabaha, Modaraba or other Islamic modes approved by the Religious Board.
  - (b) Adequate supporting securities/guarantees will be obtained to cover risk.

**5.2.2 ISLAMIC FINANCE INSTRUMENT**

- Innovatively designing and issuing approved non-interest bearing Certificates of investment and instruments of Musharika, Morabaha, Modaraba and similar profit and loss sharing schemes.
- The term of these Certificates and Instruments will not be less than 30 days maturity for the purposes of Musharika, Morabaha and Modaraba.
- Trading in the interest free money market instruments issued by the Modaraba, its clients and others; acting either on behalf of its clients or acting on its own account.
- Managing the floatation of non-interest bearing commercial paper, including introduction of its clients to non-interest bearing money market and money making activities.

- Actively promoting the creation of interest-free secondary money market and acting on behalf of its clients or on its own account in such market.

#### 5.2.3 EQUITY MARKET OPERATIONS

- Trading in listed non-interest bearing securities, both equity and Quasi Equity instruments, acting either as intermediary or on its own account.
- Providing professional analysis of non-interest bearing securities to both institutional and individual investors, particularly to its overseas Pakistanis and foreign investors.
- Public floatation and private placement of capital market instruments, including:
  - Shares and stocks
  - Non-interest bearing term obligations of corporations and financial institutions.
- Acting jointly or as managers in distribution of such issues and taking active part in all stages of preparation of such issues.
- Providing capital market musharika finance facilities to individuals and institutional investors.

#### 5.2.4 PROJECT FINANCING

- Project identification and financial engineering.
- Sectorial specialization
- Acting as advisors, financial agents or intermediaries for companies and financial institutions (particularly Islamic finance and investment companies), in obtaining direct non-interest bearing syndicated financing, export/suppliers credits, leveraged leasing, leases and project finance, both domestically and internationally.
- Assisting companies in private placement of long and short-term Sharia based financing.
- Making investments in projects through underwriting and marketing of public issues of stocks and shares and securities, short-term and long-term participation certificates and term finance certificates of varying features.
- Participating in developing factory, commercial developments and property.

#### 5.2.5 VENTURE CAPITAL

- Providing seed capital to the private companies with exceptional potential for growth and capital restructuring with the ultimate aim being to float shares and securities of the Company to public.
- Acting as co-sponsors in companies mature for floatation.
- Acting as financial intermediary, raising venture capital and equity capital for new and existing companies.
- Acting as advisors to companies in corporate or financial restructuring as well as in the preparation of resource mobilization plans.
- Rehabilitation of potentially viable but sick or near sick companies.

#### 5.2.6 LEASING AND LEVERAGED LEASING

- All types of leasing to credit worthy customers, subject always to the conditions that liabilities/obligations of ownership vesting in the lessor shall always subsist and remain the liabilities and obligation of the lessor.
- Leveraged or co-leasing with vendors, other leasing companies, financial institutions and others.



- Ownership of the leased assets will be vested in the Modaraba and the lessee will enjoy custody and the use of assets as per the terms of agreement forms approved by the Religious Board.
- The rental payable will be for the bonafide usage of assets by the lessee.

#### 5.2.7 OTHER ANCILLARY OBJECTIVES

- Engage in mercantile, trading, import, export, services or manufacturing enterprises of any nature, within and outside Pakistan and to do all things necessary and consequential or incidental to further the main objectives contained in above sections.
- Act as agents, distributors and representatives.
- Participate in the management, supervisions or control of business within and outside Pakistan (excluding the business of managing agency).

#### 5.3 RESOURCE MOBILIZATION

It is planned to mobilize substantial additional resources without the element of "Riba" using the following basic forms:

- (i) Musharika
- (ii) Morabaha
- (iii) Modaraba
- (iv) Leasing
- (v) Other permissible Islamic modes

Some of the sources of resource mobilization identified are as follows:

- Suppliers and export finance credit on lease, Modaraba or on profit and loss sharing basis.
- Foreign currency finance Islamic mode after obtaining the approval of SBP.
- Obtaining funds from individuals, non-resident Pakistanis, national and international financial institutions on profit and loss sharing basis after obtaining the approval of SBP.
- Selling/assigning leased assets.
- All the above stated resources mobilization/financing shall be obtained in conformity with the injunctions of Islam and in accordance with arrangements/instruments approved by the Religious Board from time to time.
- Active development of non-interest bearing secondary money market.
- Any other mode of resource mobilization permissible under the Sharia, with the exception of banking business and insurance business as defined in the Banking Companies Ordinance, 1962, and the Insurance Act, 1938 respectively. In this connection, the Modaraba will neither issue cheque books nor accept deposits of less than 30 days.

#### 5.4 CONFLICT OF INTEREST

- (i) The Modaraba shall not make any loans or advance money to any person, except in connection with the normal business of the Modaraba. Such loans or advances shall not be on the basis of interest.
- (ii) The Modaraba Company or any of its directors, officers or their relatives shall not obtain loan, advance or credit from the funds of the Modaraba or on the security of the assets of the Modaraba.
- (iii) The directors, officers and employees of the Modaraba Company or person who beneficially owns 10% or more of the equity of such Modaraba Company shall not without the prior written approval of the Registrar of Modaraba Companies and Modaraba, enter into any transaction with the Modaraba. This is in addition to the conditions imposed under Section 17 of the Modaraba Companies & Modaraba (Floatation & Control) Ordinance, 1980.

- (iv) The Modaraba shall not provide any accommodation, fund based or otherwise, to their directors, chief executives and major shareholders including their spouses, parents and children or to firms and companies in which they are interested as partners, directors or major shareholders (major shareholder in this context would mean any person holding 5% or more share capital).

#### 5.5 RATIO OF CERTIFICATE HOLDERS' FUNDS TO LIABILITIES

Liabilities, including contingent liabilities of the Modaraba for the first two years of its operation shall not exceed seven times of its equity. In the subsequent years the liabilities shall not exceed ten times of the equity of the Modaraba.

#### 5.6 TOTAL INVESTMENT IN EQUITIES

##### Listed Companies

The investment of Modaraba fund in listed securities shall not be more than 20% of the equity of the Modaraba, except shares taken up as consequence of underwriting obligation, or the Modaraba became the absolute owner due to default of its borrowers. Modaraba shall not invest in the shares of listed company of an amount exceeding 5% of its own equity or 10% of paid up capital of that company whichever is less.

##### Un Listed Companies

Modaraba may make investment in shares of un-listed companies subject to fulfillment of the following conditions:-

- (i) Total exposure in such companies does not exceed 5% of the Modaraba's equity;
- (ii) The directors of the Modaraba company have no direct or indirect interest in the investee company; and
- (iii) The investee company must have operational track record of three profitable consecutive years preceding the decision:

Provided that where a Modaraba is engaged in Venture Capital Financing as set out in this prospectus, this regulation may be waived on an application made to the Registrar Modaraba.

#### 5.7 ACQUISITION OF CONTROLLING INTEREST

Except where it is necessary to protect its investments, the Modaraba shall not seek to acquire a controlling interest in any undertaking in which it has invested or has any other interest which would involve the Modaraba in primary responsibility of management.

#### 5.8 ADHERENCE TO SHARIA IN ALL MATTERS

The Modaraba shall not enter into any business, investment or other transaction which:

- (a) is repugnant to the injunctions of Islam; and
- (b) involves the element of Riba either directly or indirectly.

#### 5.9 BUSINESS PROSPECTS AND VIABILITY OF THE FIRST NATIONAL BANK MODARABA

Over the years, Pakistan has achieved over 4% average rate of economic growth<sup>1</sup>. The parallel economy is estimated to be nearly as large as the formal economy. The combined economy is vibrant and offers an excellent opportunity for investment and higher returns.

Increasing awareness of the injunctions of Islam against "Riba" offers a special opportunity for the wide range of Sharia based investment and financing vehicles designed by the First National Bank Modaraba. Current financial policy of increased equity to debt ratio, non-availability of bridge finance, credit ceiling, the privatization and deregulation program etc. offer exceptional business opportunity in the money and capital market operations as well as the project financing. Many of the over 10,000 operational private limited companies need financial and advisory services to usher them to take advantage of growth potential by public floatation and venture capitalization.

<sup>1</sup>Economic survey of Pakistan 2002-2003

It is believed that a large informal economy sector and parallel money market offers an opportunity for substantial resource mobilization.

The recent entry of public sector institutions in the bond/TFCs market and consequent development of the secondary market offers interesting opportunity for bonds/TFCs using Islamic modes.

Leasing business in Pakistan is a popular form of finance and the growth rate is impressive for the following reasons:

- (i) Additional tax benefit to the lessee.
- (ii) Quick sanctions by the leasing companies.
- (iii) Leasing is in accordance with the injunctions of Islam.
- (iv) Effective security to the leasing company.

There is a large potential in the following types of leasing:

- (i) Transport vehicles.
- (ii) Industrial fixed assets.
- (iii) Office and Hospital equipment.

The venture capital operation offers an opportunity for the following reasons:

- (i) Withdrawal of most financial institutions from equity financing.
- (ii) Reduction of debt/equity ratio.
- (iii) The increasing awareness of Islamic modes of financing will favour equity or quasi-equity rather than debt.

Islamic mode of financing, based on the basic tenet that Islam, encourages trade and prohibits "Riba" or non-participative financial charges. Business is the backbone of Islamic finance. The FIRST NATIONAL BANK MODARABA will undertake safe and profitable entrepreneurial activities including joint ventures, trading, import, export and manufacturing. This activity is expected to yield above average return.

For Pakistanis living abroad and those living outside major urban centres, particularly in the rural areas, the portfolio management and investment advisory services is expected to fill a major gap in the financial services.

The experience and expertise of National Bank of Pakistan, the promoters of National Bank Modaraba Management Company Limited, over a period of six decades in the field of banking, industry, commerce and trade, will ensure the successful launching and operations of the Modaraba. They have a long list of industrial and commercial undertakings as clients including public and private companies.

A business plan of the FIRST NATIONAL BANK MODARABA is available for public inspection in the office of NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED Lahore, a copy of which has already been filed with the Registrar of Modaraba companies and Modaraba, Islamabad.

## 5.10 RISK FACTORS

The Directors wish to highlight the major risk factors, which may affect the profitability of the Modaraba, these are:

### 5.10.1 Changes in Taxation policy

The success of the Modaraba, amongst other factors, is dependent upon the privilege of tax exemption by the Government, which is subject to minimum distribution of 90 percent of the profit distribution to its certificates holders. If at any stage, this exemption is withdrawn by the Government, the profitability of the Modaraba may be affected.

### 5.10.2 Geo-Political Risk

Any uncertainty from the current political events may subdue economic activity. The political risk remains the single largest unmitigated risk factor. Any political unrest could undermine the government's efforts to restore investors' confidence. At the same time, intense competition for the available business is going to put more pressure on business growth, margin and profits.

### 5.10.3 Industrial & Economic Environment

#### (a) Industrial Environment

The existing Government policies are assumed to be consistent for the foreseeable future. In case of change of Government or its policies, the overall commercial and industrial environment may not remain attractive for the investors.

#### (b) Economic Environment

A sizeable portion of Pakistan's economy is linked to international trade. In the emerging global trade regime, manifested in World Trade Organization (WTO), our industry has no escape but to be competitive, after free trade which may effect the profitability of financial sector including Modaraba.

### 5.10.4 Competition in the Financial Market

The financial sector has seen a steep decline in lending rates during last fiscal year. This has resulted in cut throat competition among the financial institutions. Financial projections have been prepared keeping the current environmental pattern in case of any substantial change, the competition may increase.

### 5.10.5 Business Plan

The financial projections as given in the Business Plan have been prepared by the Management Company on the assumption that current market conditions continue to prevail. Any unforeseen events have not been taken into account. The investors assume the risk that due to the unforeseen events the Modaraba may not be able to maintain consistent growth.

### 5.10.6 Risk of Capital Loss

After listing of the Modaraba on the Stock Exchanges, the Certificates Holders of the Modaraba will be able to sell or buy certificates only through the stock exchanges subsequent to initial public offer. The promoters, the Commission or any other party does not guarantee financial soundness or success of the business or to buy certificates from the investors at any rate. Price of certificates will depend on the stock market behavior and performance of the Modaraba. Hence, price may rise or fall and result in increase or decrease in the value of certificates to any extent.

### 5.10.7 Force Majeure

The future performance of the Modaraba may be affected on account of force majeure events which are as follows:

#### (a) Natural events (each a "Natural Event") including, but not limited to:

- (i) Any material effect of the natural calamities including fire, earthquake etc;
- (ii) Explosion or chemical contamination;
- (iii) Epidemic or plague;
- (iv) Any event or circumstance of a nature or having an effect analogous to any of the foregoing.

#### (b) Political events (each a "Political Event") including, but not limited to:

- (i) Acts of war (whether declared or undeclared), invasion, armed conflict or act of foreign enemy, blockade, embargo, revolution, riot, insurrection, civil commotion, act of terrorism, or sabotage;
- (ii) Strikes, works to rule or go-slow which are either widespread, nationwide or citywide or of a political nature;
- (iii) Radioactive contamination or ionizing radiation;
- (iv) Any event or circumstance of a nature or having an effect analogous to any of the foregoing.

**Note: It is stated that all material risk factors have been disclosed and nothing has been concealed with respect to this Prospectus.**

### 5.11 COMMENCEMENT OF BUSINESS OF THE MODARABA

Full-fledged business of the Modaraba will be started INSHA-ALLAH after the present issue and completion of necessary formalities.

**PART VI**

**6. FINANCIAL INFORMATION**

**6.1 AUDITORS' CERTIFICATE UNDER THE MODARABA COMPANIES AND MODARABA RULES, 1981.**

The Board of Directors  
National Bank Modaraba Management  
Company Limited  
National Bank Building,  
26-Mclagon Road,  
Lahore.

August 13, 2003

Dear Sirs

**AUDITORS' CERTIFICATE UNDER MODARABA COMPANIES AND MODARABA RULES, 1981.**

We have audited the accounts of First National Bank Modaraba for the period from July 02, 2003 upto August 13, 2003 and in accordance with rule 20(6) read with clause 27(1) and 27(2) of part II of the Fourth Schedule to the Modaraba Companies and Modaraba Rules, 1981, we report that the assets and liabilities of First National Bank Modaraba as at August 13, 2003 were as follows:-

**FIRST NATIONAL BANK MODARABA  
STATEMENT OF ASSETS & LIABILITIES  
AS AT AUGUST 13, 2003**

<b>MODARABA FUND</b>	
AUTHORISED MODARABA FUND:	Rupees
60,000,000 Modaraba Certificates of Rs.10 each	
SUBSCRIBED & PAID UP MODARABA FUND:	<u>600,000,000</u>
7,500,000 Modaraba Certificates of Rs. 10 each	
paid in cash	
CREDITORS:	75,000,000
Payable to National Bank Modaraba Management Co. Ltd.	
	<u>5,808,891</u>
	<u><b>80,808,891</b></u>
<b>ASSETS</b>	
NON-CURRENT ASSETS:	
Pre-operational expenses	
CURRENT ASSETS:	5,808,891
Cash at Bank	
	<u>75,000,000</u>
	<u><b>80,808,891</b></u>

We further report that:

- (a) The Modaraba is in the process of establishment and such has not commenced operations, accordingly there are no profit and losses to report and no dividends have been declared and no balance sheet/statement of assets and liabilities have been prepared other than statement of assets and liabilities as at August 13, 2003.
- (b) There are no subsidiaries of the Modaraba.
- (c) Any proceeds or part thereof has not been applied in the purchase of any business or property.

M. Yousuf Adil Saleem & Co.  
Chartered Accountants

6.2 AUDITORS' CERTIFICATE ON CAPITAL

The Board of Directors  
National Bank Modaraba Management  
Company Limited  
National Bank Building  
26-Mclagon Road  
Lahore.

August 13, 2003

Dear Sirs

AUDITORS' CERTIFICATE ON CAPITAL OF  
FIRST NATIONAL BANK MODARABA

We have examined the books of accounts and other records of the Modaraba and report that, in our opinion, upto August 13, 2003 an amount of Rs. 75,000,000/- (Rupees seventy five million) has been subscribed towards the certificate capital of the Modaraba by the sponsors:

	Amount (Rupees)
National Bank Modaraba Management Company Ltd.	<u>75,000,000</u>

Yours truly,

M. Yousuf Adil Saleem & Co.  
Chartered Accountants

6.3 AUDITORS' CERTIFICATE ON BREAK UP VALUE OF MODARABA CERTIFICATES

The Board of Directors  
National Bank Modaraba Management  
Company Limited  
National Bank Building  
26-Mclagon Road  
Lahore.

August 13, 2003

Dear Sirs

BREAK-UP VALUE OF MODARABA CERTIFICATES

Based on the audited Assets & Liabilities Statement as at August 13, 2003 the break-up value of Modaraba Certificates of First National Bank Modaraba is Rs. 10/- each.

Yours truly,

M. Yousuf Adil Saleem & Co.  
Chartered Accountants

6.4 FINANCIAL YEAR

Financial year of the FIRST NATIONAL BANK MODARABA will be July 01 to June 30.

## PART VII

## 7. THE MODARABA MANAGEMENT

7.1 NAME, ADDRESS AND OCCUPATION	DESCRIPTION	DIRECTORSHIP IN OTHER COMPANIES
Mr. S. Ali Raza D-36, Block-3, Clifton, Karachi Banker	Chairman	<ul style="list-style-type: none"> <li>• President and Chairman of Board of Directors of National Bank of Pakistan</li> <li>• Pakistan International Bank, (UK) Ltd.</li> <li>• Bank Al-Jazira, Jeddah</li> <li>• National Investment Trust</li> <li>• Investment Corporation of Pakistan</li> <li>• National Discounting Services Ltd.</li> <li>• The Institute of Bankers</li> <li>• National Institute of Banking &amp; Finance (Guarantee) Ltd.</li> <li>• National Insurance Company Ltd.</li> <li>• Pakistan International Airlines Corporation</li> <li>• Khushhali Bank</li> <li>• First Women Bank Ltd.</li> <li>• Hub Power Company Ltd.</li> <li>• Karachi Electric Supply Corporation Ltd.</li> <li>• Pakistan Refinery Ltd.</li> </ul>
Mr. Rasool Ahmed Kaleemi 146-N, Block II, PECHS, Karachi Banker	Director	<ul style="list-style-type: none"> <li>• National Construction Limited</li> <li>• Pakistan Tourism Development Corp. Ltd.</li> <li>• NBP Exchange Company Ltd.</li> </ul>
Mr. S. M. Rafique S-18/II, 16 <sup>th</sup> East St. Bank, Phase-I, Executive Defence Housing Authority, Karachi. Banker	Director	<ul style="list-style-type: none"> <li>• Pakistan Agricultural Storage &amp; Services Corporation Ltd. (PASSCO)</li> <li>• NBP Almaty (Kazakhstan)</li> <li>• NBP Exchange Company Ltd.</li> </ul>
Mr. Masood Karim-Sheikh 94-2, 6 <sup>th</sup> Street, Phase-6, DHA, Karachi Banker	Director	<ul style="list-style-type: none"> <li>• Taurus Securities Ltd.</li> <li>• National Discounting Services Ltd.</li> <li>• Siemens Pakistan Engineering Co Ltd</li> <li>• Arabian Sea Country Club</li> <li>• International Asset Management Co. Ltd.</li> </ul>
Muhammad Nusrat Vohra National Bank of Pakistan, Head Office, Karachi Banker	Director	<ul style="list-style-type: none"> <li>• Taurus Securities Ltd.</li> <li>• National Discounting Services Ltd.</li> <li>• NBP Exchange Company Ltd.</li> </ul>
Mr. Farooq-ul-Hasan Chishti 33/B, Gulgasht Colony, Multan Banker	Director	None
Mr. Tajammal Hussain Bokharee 73-Main Gulberg, Lahore Banker	Director	<ul style="list-style-type: none"> <li>• Global Leasing Company (Pvt.) Ltd.</li> </ul>
Mr. Shafiq Khan 106-G, Model Town, Lahore Banker	Chief Executive Officer	<ul style="list-style-type: none"> <li>• Asian Leasing Corporation Ltd.</li> </ul>
Mr. Ali Raza Jaffery 345/A-3, Gulberg-III, Lahore Banker	Chief Financial Officer/ Company Secretary	None

**7.2 INFORMATION IN RESPECT OF COMPANIES IN WHICH DIRECTORS ARE HOLDING DIRECTORSHIP**

Dividend Declared in Last Five Years				
2002	2001	2000	1999	1998

**1 Mr. S. Ali Raza - Chairman**

1	Pakistan International Bank, (UK) Ltd.	-	-	* N/A	* N/A	* N/A
2	Bank Al-Jazira, Jeddah	-	-	-	-	-
3	National Investment Trust	50%	37.5%	30%	10%	10%
4	Investment Corporation of Pakistan	-	-	-	-	-
5	National Discounting Services Ltd.	6%	6%	6%	6%	6%
6	The Institute of Bankers	-	-	-	-	-
7	National Institute of Banking & Finance (Guarantee) Ltd.	-	-	-	-	-
8	National Insurance Company Ltd.	-	-	-	-	-
9	Pakistan International Airlines Corporation	-	-	-	-	-
10	Khushhali Bank	-	-	-	-	-
11	First Women Bank Ltd.	-	-	-	-	-
12	Hub Power Company Ltd.	76%	39%	-	-	70%
13	Karachi Electric Supply Corporation Ltd.	-	-	-	-	-
14	Pakistan Refinery Ltd.	62.50%	35%	25%	25%	23%

**2 Mr. R. A. Kaleemi**

1	National Construction Limited	-	-	-	-	-
2	Pakistan Tourism Development Corp. Ltd.	-	-	-	-	-
3	NBP Exchange Company Limited	-	-	-	-	-

**3 Mr. Masood Karim Sheikh**

1	Taurus Securities Ltd.	-	-	-	-	-
2	National Discounting Services Ltd.	6%	6%	6%	6%	6%
3	Siemens Pakistan Engg Co. Ltd.	130%	130%	150%	60%	112.5%
4	Arabian Sea Country Club	-	-	-	-	-
5	International Asset Management Co. Ltd.	-	-	-	-	-

**4 Mr. S. M. Rafique**

1	Pakistan Agricultural Storage & Services Corporation Ltd. (PASSCO)	**A/F	-	-	20%	20%
2	NBP Almaty (Kazakhstan)	**A/F	*N/A	*N/A	*N/A	*N/A
3	NBP Exchange Company Ltd	*N/A	*N/A	*N/A	*N/A	*N/A

**5 Mr. Farooq-ul-Hassan Chishti**

Nil

**6 Mr. Tajammal Bokharee**

1	Global Leasing Company (Pvt.) Ltd.	-	-	-	-	-
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**7 Mr. Nusrat Vohra**

1	Taurus Securities Ltd.	-	-	-	-	-
2	National Discounting Service	6%	6%	6%	6%	6%
3	NBP Exchange Company Ltd.	*N/A	*N/A	*N/A	*N/A	*N/A

**8 Mr. Shafiq Khan**

1	Asian Leasing Corporation Ltd.	-	-	-	-	-
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Not incorporated

\*\* Accounts Finalisation in process



## FIRST NATIONAL BANK MODARABA

### 7.3 PROFILE OF THE CHIEF EXECUTIVE

Mr. Shafiq Khan is the Chief Executive of National Bank Modaraba Management Company Limited. He is a seasoned Banker with 18 years of diversified Banking experience.

After obtaining Bachelor & Master Degree in Business Administration from University of Texas at Arlington USA, he joined National Bank of Pakistan and held different key managerial positions. He has been working with National Bank of Pakistan as General Manager Credit, General Manager Special Assets Management, Regional Operations Chief, Regional Chief Executive, Lahore. He is drawing a salary of Rs.80,000/- per month including all other benefits and allowance.

No remuneration/compensation/benefit will be paid from the assets/funds of the Modaraba to the Chief Executive of the Modaraba Company.

### 7.4 PROFILE OF THE COMPANY SECRETARY

Mr. Ali Raza Jaffery has been appointed as Company Secretary of the National Bank Modaraba Management Company. He is a Chartered Accountant by profession and possesses varied experience of 6 years in financial sector and as a Company Secretary. He is entitled to privileges and benefits as per Modaraba Company's Policy. He is drawing a salary of Rs.70,000/- per month including all other benefits and allowance.

No remuneration/compensation/benefit will be paid from the assets/funds of the Modaraba to the Company Secretary of the Modaraba Company.

### 7.5 ADMINISTRATION AND MANAGEMENT POLICIES

- (a) The Modaraba Company shall maintain a Register of Modaraba Certificate holders and only Certificate holders registered in the said register shall be deemed to be owners thereof.
- (b) The Modaraba Company shall keep separate books of account relating to its own income and expenditure and the income and expenditure of, and connected with the Modaraba or other Modarabas. The said books of account shall be open to inspection by the Directors, Certificate holders. Auditors of the Modaraba Company and the Auditors of the Modaraba.
- (c) The Modaraba Company shall, within one month of the close of first, second and third quarters of the financial year, prepare in accordance with such International Accounting Standards and other Standards, as may be specified from time to time by notification in the official Gazette, for the purpose by the Securities and Exchange Commission of Pakistan under sub section (3) of Section 234 of the Companies Ordinance, 1984, (XLVII of 1984), and transmit by registered post to the Registrar Modaraba and under postal certificate to its certificate holders a profit & loss account, a cash flow statement and a statement of changes in equity for, and a balance sheet as at the end of, that quarter, whether audited or otherwise.
- (d) Within four months of the close of the accounting year of the Modaraba, the Modaraba Company shall prepare and circulate to the holders of Modaraba Certificates:
  - (i) the annual balance sheet, a profit and loss account, a cash flow statement and a statement of changes in equity;
  - (ii) a report of the Auditors as prescribed in Form XI of the Modaraba Rules, 1981 on the balance sheet, a profit and loss account, a cash flow statement and a statement of changes in equity;
  - (iii) a report by the Modaraba Company on the activities and business prospects of the Modaraba and the profits for distribution to the Certificate holders;
  - (iv) any other statement or information as required under the Code of Corporate Governance and/or Listing Regulations; and
  - (v) any other statement or information that the Board of the Modaraba Company may like to include.
- (e) Hameed Chaudhri & Co., Chartered Accountants, are the auditors of the Modaraba Company.

- (f) M. Yousaf Adil Saleem & Co., Chartered Accountants, have given their consent to act as auditors of the Modaraba.

The Registrar of Modaraba Companies and Modaraba, Islamabad has approved their appointment as the auditors of the FIRST NATIONAL BANK MODARABA for the first accounting year. Their fee will be Rs. 75,000 for the first accounting year. Modaraba auditors will be appointed and approved on an annual basis as required under the Modaraba Ordinance and Rules.

- (g) The Modaraba Company will provide office space, custodial and management services and charge a management fee not exceeding 10% of the net annual profit of the Modaraba. The net profit shown in the annual audited profit & loss account of the Modaraba shall form the basis for calculating the management fee.
- (h) The Modaraba Company shall be competent to do all other acts which in its opinion may be necessary to promote the interest of the Certificate holders based on investment climate in Pakistan and elsewhere and the condition of the capital market and as may be warranted by commercial consideration in accordance with the provisions of the Modaraba Ordinance, 1980, Modaraba Rules, 1981 and Prudential Regulations for Modarabas.

## 7.6 SAFEGUARDS AND INVESTMENT POLICY

7.6.1 The Modaraba's safeguards and investment policy provides a framework to ensure that:

- (i) All the business dealings, transactions and conduct at all times conform to Sharia.
- (ii) The total exposure of FIRST NATIONAL BANK MODARABA to a single person or group shall not exceed 20% of the equity of the Modaraba.
- (iii) Reasonable financial and business prudence is observed in investments, resource mobilization and financial advisory services.
- (iv) Risks are managed on sound professional basis.
- (v) Management controls and safeguards are built in the investment and business process.
- (vi) None of the types of business contemplated herein shall include directly or indirectly an element of 'riba' and no business or transaction shall in any way be violative of the Injunctions of Islam. Before undertaking any such business as contemplated herein the precise nature of the business as well as the arrangements and instruments through which the business will be undertaken shall be submitted to the Religious Board for its approval.
- (vii) Risks will be minimized by diversification of leased assets portfolio and other investments portfolio and by not dealing exclusively with any one institution or organization.
- (viii) The quality of credit will be closely monitored and following credit policy will apply:
  - all lease/credit proposals will be approved by the credit committee constituted by Modaraba company; and
  - all such approved lease/credit proposals will be placed before Modaraba Company's Board of Directors on a regular basis for ratification.

Credit worthiness of lessees.

Potential lessees, will be thoroughly vetted before signing the lease agreement and handing over of the asset

Credit worthiness of the lessee will be determined according to the following criteria:

## FIRST NATIONAL BANK MODARABA

(a) an analysis of the potential lessees audited accounts. The lessee may either be a:

- private limited company
- public limited company
- branch company or partnership
- high net worth individual

Particular reference will be made to the Debt Equity ratio, the current ratios and the liquid ratios. It would be examined that the auditors report is clean and is in line with the industry as a whole.

(b) The Profit & Loss Account will be examined to ensure that the lessee has a profitable operation in line with the industrial average.

(c) The cash flow statement will be examined together with 5 year projections to ensure that the lessee has the potential or capacity to pay the monthly lease rentals.

(d) In extreme cases the lessee may be required to provide collateral or security, or indeed a bank guarantee covering the rental payments.

(ix) Lease transactions will be in line with applicable laws and regulations.

(x) We submit that leasing is a business in which further checks, balances, and safeguards, are incorporated in the business itself as follows:

(a) The prime collateral is the asset itself which is an item of value. Its registration or ownership will be in the name of the Modaraba.

(b) The lease agreement is a legally executed form of contract between the Lessor and the Lessee, and binds the Lessee very firmly for fulfilling all his obligations under the lease. It gives the Lessor wide powers in the event of any default by the Lessee.

(c) Prior to the granting of any lease, the Lessor examines the audited statements of accounts of the proposed Lessee and also obtains a credit report.

(d) Where the examination of books shows any possible weakness in the status of the Lessee, additional collateral is invariably specified and executed in support of the lease.

### 7.6.2 GENERAL

(i) The directors of the Modaraba Company shall exercise strict vigilance over the business of the Modaraba. All decisions will be made on sound business principles and based on the best possible advice.

(ii) Suitably qualified and experienced personnel for the Modaraba will be engaged by the Modaraba Company who will bring with them knowledge and expertise in credit assessment and marketing.

(iii) Business and investment decisions shall be judiciously based on thorough analysis and studies, scope of future prospects in the light of cash flow, market, operations, business projections and environment considerations, as well as the management of enterprise.

(iv) In making financial investments the risks will be minimized through diversification of the portfolio.

(v) A separate bank account will be maintained by the Modaraba Company in respect of the Modaraba. This will be operated by authorized officers of the Modaraba Company.

- (vi) Collection accounts for subscription towards the Modaraba Certificates will be operated jointly by two authorized officers of the Modaraba Company.
- (vii) Musharika, Morabaha and commercial funding facilities will be extended to sound industrial and commercial entities and other enterprises which are enjoying or may enjoy similar facilities from the banking and financial sector.
- (viii) Business transactions shall be conducted in accordance with the applicable laws and regulations of the country.
- (ix) The shares Certificates acquired out of the Modaraba Fund will be registered in the name of the Modaraba in the respective books of the companies issuing the shares.
- (x) The Modaraba Company shall cause to publish in the bulletin or other such publications of the Stock Exchanges on which its shares are listed, the names and values of the Modaraba's shares portfolio as at the end of each half year.
- (xi) The Modaraba Company shall not:
  - Effect a short sale in any share;
  - Purchase any share on margin;
  - Enter into speculative transactions;
  - Purchase any share or commodity in a forward contract; or
  - Enter into carry over trade transactions.

#### **7.6.3 COMPLIANCE WITH PRUDENTIAL REGULATIONS**

Chief Executive and Directors of the Modaraba Company will ensure that the business transactions undertaken by the Modaraba are in compliance with the Prudential Regulations for Modarabas (as amended from time to time) issued by the SEC.

#### **7.7 INTEREST OF THE MODARABA COMPANY, ASSOCIATED CONCERNS ITS DIRECTORS AND OFFICERS**

The Modaraba Company is interested to the extent of its capital investment in the Modaraba, in management fee maximum to the extent of 10% of the net annual profits of the Modaraba and in reimbursement of expenses incurred by it on behalf of the Modaraba. There is no other interest of the Modaraba Company and its directors and officers in promoting the Modaraba.

Mr. Shafiq Khan, has been appointed Chief Executive of the Modaraba Company. The remuneration of Directors, other than full time working directors for attending meetings of the Board or of Committees shall from time to time be determined by the Board of Directors within limits as permissible under law and shall be paid by the Modaraba Company.

#### **7.8 BENEFITS TO PROMOTERS AND OFFICERS**

No amount or benefit has been paid or given or is intended to be paid or given to any promoter, director or to any officer of the Modaraba Company other than as remuneration for services rendered as whole-time executives of the Modaraba Company and the remuneration for services shall be borne by the Modaraba Company.

- ✓ 7.9 The provisions of Section 31 and 32 of the Modaraba Ordinance, 1980 shall ipso facto apply to the Modaraba Company and its Chief Executive and Directors for contravening the contents of this Prospectus.

**PART VIII**

**8. MISCELLANEOUS**

**8.1 NAME OF THE MODARABA**

First National Bank Modaraba

**8.2 MODARABA COMPANY,  
REGISTERED OFFICE AND  
PRINCIPAL PLACE OF BUSINESS**

National Bank Modaraba Management Company Limited  
National Bank of Pakistan  
Regional Head Quarter Building  
26-Mclagon Road, Lahore  
Telephone Nos: (042) 9211225, 9211200  
Fax: (042) 7242102

**8.3 BANKERS TO THE MODARABA**

National Bank of Pakistan

**8.4 BANKERS TO THE MODARABA  
COMPANY**

National Bank of Pakistan  
Meezan Bank Limited

**8.5 BANKERS TO THE ISSUE**

- National Bank of Pakistan
- Habib Bank Limited
- United Bank Limited
- Muslim Commercial Bank Limited
- Meezan Bank Limited

**8.6 AUDITORS TO THE MODARABA  
COMPANY**

Hameed Chaudhri & Co.  
Chartered Accountants  
H.M. House, 7-Bank Square, Lahore

**8.7 AUDITOR OF THE MODARABA**

M. Yousaf Adil Saleem & Co.  
Chartered Accountants  
Apt. 4, Block-B, 90-Canal Park,  
Gulberg-II, Lahore.  
Ph. (Off.) : 5756440, 5757022, 5753546  
Fax : 5757335  
Email : [marair@lhr.paknet.com.pk](mailto:marair@lhr.paknet.com.pk)

**8.8 LEGAL ADVISORS**

M/s. Mandviwala & Zafar  
Advocate  
Zafar Chambers, 7/B-1, Aziz Avenue, Canal  
Bank, Gulberg-V, Lahore.

**8.9 CONSULTANTS TO THE ISSUE,  
COMPUTER BALLOTTERS AND  
SHARES REGISTRAR**

Hameed Majeed Associates (Pvt.) Limited  
HM House, 7-Bank Square, Lahore  
Telephone No.: (42) 7235081-2  
Fax : (42)7358817  
Email : [info@hmaconsultants.com](mailto:info@hmaconsultants.com)

**8.10 MATERIAL CONTRACTS**

**8.10.1 Underwriting Agreements**

Underwriting agreements for the present issue of Rs.100.00 million have been entered into between the Modaraba Company and Underwriters as under.

Sr. No.	Names of Underwriters for Present Issue of Rs.100.00 million	Agreement Date	Addendum Date	Amount (Rs.)
1.	Faysal Bank Limited	July 11, 2003	September 11, 2003	35,000,000
2.	PICIC	July 11, 2003	September 11, 2003	25,000,000
3.	Dawood Leasing Company Limited	July 11, 2003	September 11, 2003	25,000,000
4.	Orix Investment Bank Pakistan Limited	July 11, 2003	September 11, 2003	15,000,000
				<b>100,000,000</b>

#### 8.10.2 Investors' Agreement

Investors' Agreements were entered between the following investors and Modaraba Company for the private placement of Rs.75.00 Million of Modaraba Fund:

Sr. No.	Pre-IPO Investors for Private Placement of Rs.75.00 million	Agreement Date	Addendum Date	Amount (Rs.)
1.	PICIC	July 11, 2003	September 11, 2003	18,750,000
2.	Bank Alfalah Limited	July 11, 2003	September 11, 2003	18,750,000
3.	Faysal Bank Limited	July 11, 2003	September 11, 2003	15,000,000
4.	The Bank of Punjab	July 11, 2003	September 11, 2003	15,000,000
5.	Dawood Leasing Company Limited	July 11, 2003	September 11, 2003	3,750,000
6.	Orix Investment Bank Pakistan Limited	July 11, 2003	September 11, 2003	3,750,000
				<b>75,000,000</b>

#### 8.11 INSPECTION OF DOCUMENTS

Copies of Memorandum and Articles of Association of the Modaraba Company, the Auditors' Certificates and copies of the documents referred to in this Prospectus may be inspected during the usual business hours on any working day at the Registered Office of the Modaraba Company from the date of publication of this Prospectus till the closing of Subscription List.

#### 8.12 CERTIFICATE OF THE RELIGIOUS BOARD

The Religious Board constituted under Section 9 of the Modaraba Ordinance has approved the proposal of National Bank Modaraba Management Company Limited for floatation of the First National Bank Modaraba and has certified that the business proposed to be undertaken by First National Bank Modaraba as per the draft prospectus submitted by National Bank Modaraba Management Company Limited is not opposed to the injunctions of Islam.

#### 8.13 FULFILLMENT OF THE REQUIREMENTS OF VARIOUS CLAUSES OF FOURTH SCHEDULE TO THE MODARABA COMPANIES AND MODARABA RULES, 1981

It is hereby stated under clause 18 of the Fourth Schedule that no Certificate has been issued or agreed to be issued by the Modaraba otherwise than in cash. As required under Clause 19, 20 and 26 of the Schedule it is clarified that no property has so far been purchased or is proposed to be purchased or acquired and that no business has so far been carried on by the Modaraba. It is also confirmed that no amount has been paid or benefit given to the Modaraba Company. The requirements of Clauses 21 through 25 of the Fourth Schedule under reference have also been suitably dealt.

#### 8.14 LEGAL PROCEEDINGS

There are no legal proceedings against the Modaraba Company nor has the Modaraba Company initiated any legal proceedings against any party.

#### 8.15 VENDORS

The Modaraba has no vendors in term of clause 12 of Part I of the Second Schedule of the Companies Ordinance.

#### 8.16 SUBSIDIARY COMPANIES

The Modaraba has no subsidiary company.

#### 8.17 MEMORANDUM OF ASSOCIATION

The Memorandum of Association, inter alia, contains the objects for which the Management Company was incorporated and the business which the Management Company is authorized to undertake. A copy of the Memorandum of Association is annexed to this Prospectus and with every issue of the Prospectus except the one that is released in newspapers as advertisement.

#### 8.18 INVESTMENT IN ASSOCIATED COMPANIES UNDER SECTION 208 OF THE COMPANIES ORDINANCE

There is no investment of the Modaraba in any of its associated company.

#### 8.19 REVALUATION OF ASSETS

The Modaraba has not revalued any of its assets and no such provisions have been made in the accounts.

#### 8.20 CAPITALIZATION

The Modaraba has not capitalized any of its reserves.

PART IX

9. THE FORM OF MODARABA CERTIFICATE

FIRST NATIONAL BANK MODARABA

Managed by

NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED

AUTHORIZED MODARABA FUND RS. 600,000,000  
DIVIDED INTO 60,000,000 CERTIFICATES OF RS. 10/- EACH

This is to certify that:

is/are the Registered Holder(s) of ..... fully paid  
Modaraba Certificates of Rs. 10/- each numbered as below, in  
FIRST NATIONAL BANK MODARABA subject to the terms of  
the Prospectus and that a sum of Rs. 10/- has been fully paid for  
each Certificate.

Folio Number	Certificate Number	Distinctive Numbers (inclusive)		Number of Certificates
		From	To	

Given under the Common Seal of the Company

This \_\_\_\_\_ day of \_\_\_\_\_

Chief Executive

Secretary

## PART X

## APPLICATION AND ALLOTMENT INSTRUCTIONS

1. Name(s) and address(es) must be written in full in block letters in English and should not be abbreviated. All applications must bear the signature(s) and address(es) corresponding with that recorded with the bank in the applicant's account. *In case of difference of signature with the bank and on the National Identity Card, both the signatures should be affixed on the application form.*
2. APPLICATION MUST BE MADE ON THE MODARABA'S PRINTED FORM OR A LEGIBLE PHOTOCOPY THEREOF. Non-resident Pakistani nationals must submit their applications in duplicate alongwith the declaration attached to the applications.
3. The applicants opting for scrip-less form of security are required to complete the relevant sections of the application form. In case of discrepancy between the information provided in the application form and the information already held by CDC, the Modaraba Company reserves the right to issue the modaraba certificates in physical form.
4. (a) An Attested Copy of the National Identity Card should invariably be enclosed and the number indicated on each application, except in case of the applications filed by the Investment Corporation of Pakistan on behalf of its account holders/investors, and applications filed by limited companies and bodies corporate. Copy of the National Identity Card can be attested by any Federal/Provincial Government Gazetted Officer, Counselor, Bank Manager, Oath Commissioner and Head Master of High School etc.  
(b) Original National Identity Card, along with one attested photocopy, must be produced for verification by the bank branch at the time of presenting an application. The attested photocopy will, after verification, be retained by the bank branch alongwith the application.
5. (a) Application must be made for certificates of Rs. 5,000/- or in multiples thereof. Application for certificate below the value of Rs.5,000/- shall not be entertained.  
(b) Modaraba Certificates will be issued in marketable lots of 500 Certificates of Rs.10/- each.
6. (a) Subscription money must be paid by cheque drawn on applicant's own account.  
(b) Only one application will be accepted against each account. In case of joint accounts, one application will be accepted in the name of each of the joint account holders. No application will be accepted in the name of a person shown as minor in the records of the Bank.
7. Copies of the Prospectus and Application Forms can be obtained from the members of the Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited, the Bankers to the Issue and their branches, Consultants to the issue and the Registered Office of the National Bank Modaraba Management Company Limited.
8. Remittance for the full amount of Certificates of Rs.10/- each must accompany each application and must be forwarded to any one of the Bankers to the Issue named in the Prospectus. Payment should be in the form of cheque(s) or draft(s) drawn payable to one of the Bankers to Issue "A/C FIRST NATIONAL BANK MODARABA" and crossed "A/C PAYEE" and must be drawn on a bank in the same town as the bank to which the application form has been sent. Subscription money must be paid by cheque drawn on applicants own account.
9. Application shall not be made by or on behalf of minors and/or persons of unsound mind or firms or trusts. Applications made by companies and corporate bodies must be accompanied by a copy of their Memorandum and Articles of Association or equivalent instrument. Where applications are made by virtue of instrument of Power of Attorney, the instrument of Power of Attorney or notarially certified copy must be lodged with the application.
10. Joint applications by more than four persons shall not be accepted. In case of joint application, each person must sign the application form and submit attested copies of National Identity Card. The Modaraba Certificates will be despatched to the person whose name appears first on the application form, while in



case of CDS it will be certified to the respective CDC account and where any amount is refundable, in whole or in part, the same will be refundable by cheque and by post, to the person named first on the application form, without interest, or through the bank where the application is tendered.

11. Banks are not allowed to make application for the Modaraba Certificates of the value of Rs.5,000/- on account of their constituents in the case of resident Pakistanis. Such application shall be made by the subscriber himself, complete in all respects and shall be certified by the Bank Manager as provided in the application form. Modaraba Certificates in respect of such applications shall be issued in the name of the applicant and sent to the postal address stated by the applicant or to the bank through which the application is tendered, while in case of CDS it will be certified into the respective CDC account. These Modaraba certificates shall not be issued in the name of the Bankers.
12. Application for the Modaraba Certificates of the value of Rs.5,000/- in the case of non-resident Pakistanis and in other cases above the nominal value of Rs. 5,000 may be made by banks on behalf of their constituents but must contain all information in respect of each constituent on the application form. All such applications made by banks must also be certified by the Bank Manager concerned as provided in the application form. Modaraba Certificates in respect of such applications will be issued in the name of banks on account of the constituent and the relevant Modaraba Certificates and advices for refund, if any, will be sent to the bank concerned.
13. No receipt will be issued for payment made with the application but an acknowledgement will be forwarded in due course either by issue of Modaraba Certificates, in whole or in part, or by refund of the money paid with the application. The receiving bankers will issue provisional acknowledgement for applications lodged with them. No interest or profit will be payable in respect of the refunded amount.
14. It would be permissible for a bank to refund subscription money to an unsuccessful applicant having an account in that bank by crediting such account instead of remitting the same by cheque, pay order or bank draft. Applicants should, therefore, not fail to give their bank account number.
15. Allotment shall be made in accordance with the instructions laid down by the Securities and Exchange Commission of Pakistan.
16. Application shall be subject to pre-ballot as well as post-ballot scrutiny. Applications, which do not meet the above requirements, or applications which are incomplete will be rejected. Subscription money in respect of rejected application shall not be refunded without the approval of the Securities and Exchange Commission of Pakistan.
17. In case of applications made by a banker or recognised Stock Exchange member, the Banker to the Issue or the member shall obtain the Certificates from the applicant(s) in terms of paragraph(3) of the application form and forward the same in original to NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED with the application.
18. Balloting of the applications will be restricted to only such applications which are complete in all respects. Failure to adhere to the above requirements may result in post ballot rejection of the application.
19. Making of any false statements in the application or willfully supplying of incorrect information therein make the applicant or the bank liable to legal action.
20. The basis and conditions of allotment to the general public shall be as follows:
  - (a) The minimum amount of application for subscription of Modaraba Certificates is Rs.5,000/-.
  - (b) Application for certificates below the total value of Rs.5,000/- shall not be entertained.
  - (c) **Fictitious and multiple (i.e. more than one) applications are prohibited and such applicants' money shall be liable to confiscation under Section 18-A of the Securities and Exchange Ordinance, 1969.**
  - (d) Application must be made for certificates of Rs.5,000/- or in multiples thereof.
  - (e) If the certificates to be issued to the general public are sufficient for the purpose to accommodate all the applications, all applications shall be accommodated.

## FIRST NATIONAL BANK MODARABA

- (f) If the issue is oversubscribed both in terms of number of applications and amount, the certificates will be allotted by conducting computer balloting in the presence of the representatives of the KSE and LSE.
- (g) If the issue is oversubscribed in terms of amount only, then all applications shall be accommodated initially for certificates of Rs.5,000 - each and the balance certificates shall be allotted on pro-rata basis to all applicants who applied for certificates in multiples of Rs.5,000/-
- (h) Allotment of certificates will be subject to scrutiny of applications for subscription.

CODE OF OCCUPATIONS			
1.	Business	2.	Business Executive
3.	Service	4.	Housewife
5.	Household	6.	Professional
7.	Student	8.	Agriculturist
9.	Industrialist	10.	Others
CODE	BANKERS TO THE ISSUE		
01	National Bank of Pakistan		
02	Habib Bank Limited		
03	United Bank Limited		
04	Muslim Commercial Bank Limited		
05	Meezan Bank Limited		

## SIGNATORIES TO THE PROSPECTUS

1. Mr. S. Ali Raza \_\_\_\_\_ sd/- \_\_\_\_\_
2. Mr. Rasool Ahmed Kaleemi \_\_\_\_\_ sd/- \_\_\_\_\_
3. Mr. S. M. Rafique \_\_\_\_\_ sd/- \_\_\_\_\_
4. Mr. Masood Karim Sheikh \_\_\_\_\_ sd/- \_\_\_\_\_
5. Mr. Muhammad Nusrat Vohra \_\_\_\_\_ sd/- \_\_\_\_\_
6. Mr. Farooq-ul-Hasan Chishti \_\_\_\_\_ sd/- \_\_\_\_\_
7. Mr. Tajammal Hussain Bokharee \_\_\_\_\_ sd/- \_\_\_\_\_
8. Mr. Shafiq Khan \_\_\_\_\_ sd/- \_\_\_\_\_

Date: \_\_\_\_\_

Place: \_\_\_\_\_

Witness to the signatures: \_\_\_\_\_

Name: \_\_\_\_\_

Occupation: \_\_\_\_\_

Address: \_\_\_\_\_

NIC No: \_\_\_\_\_

## THE COMPANIES ORDINANCE, 1984

## MEMORANDUM OF ASSOCIATION

## OF

NATIONAL BANK MODARABA MANAGEMENT  
COMPANY LIMITED

- I. The name of Company is "NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED".
- II. The Registered Office of the Company will be situated at Lahore in the Province of Punjab.
- III. The company will be a subsidiary of National Bank of Pakistan and the objects for which the Company is established will be governed by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the company will undertake any or all of the following business in and outside Pakistan, except for any activity which are inconsistent with Sharia'a:
  1. To initiate, sponsor, promote, float, organize, manage, administer, operate, modaraba funds and modarabas of all types and descriptions, mutual funds, unit trust and other similar concerns either in syndicates or otherwise for the purpose of undertaking all activities which a modaraba can undertake under the law providing that none of these enterprises would be engaged in or the funds thereof invested in any venture; the activities of which are contrary to the Injunctions of Islam or which involve the element of riba in any form whatsoever.
  2. To invest or participate in and to collaborate or co-operate with any modaraba company, modaraba fund, modaraba, mutual fund, unit trust, and other similar concerns either in syndicates or otherwise providing that none of these enterprises is or would be engaged in or the funds thereof invested in any venture; the activities of which are contrary to the Injunctions of Islam or involve the element of riba in any form whatsoever.
  3. To act as professional and technical consultants and advisors and provide or assist in providing of any professional, technical and managerial advice or assistance to any undertaking or enterprise whatsoever.
  4. To undertake and execute trusts of all kinds and also to undertake the office of Attorneys and to discharge the duties and functions incident thereto.
  5. To act as nominee or agent either solely or jointly for any person or persons, company, corporation, government, state or province, or of any municipal or other authority or public body.
  6. To hold in trust as trustee or nominee of any person or persons company, corporation, government, state or province or of any municipal or other authority of public body and deal with, manage and turn to account any real and personal property of all kinds and in particular shares, stocks, debentures, securities, scrips, participation term certificates, terms finance certificates, finance certificates, musharika certificate, modaraba certificates, insurance policies, book debts, claims and choses-in-action, lands, buildings, business concerns and undertakings, mortgages, charges, unities, patents, licences, and any interest of whatsoever kind in real or personal property or against any person, company, corporation or body.
  7. To negotiate loans and to act as agents for the loans, payment, transmission and for the management and realization of property subject to Companies Ordinance, 1984, and generally to transact all kinds of agency business except Managing Agency.

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## FIRST NATIONAL BANK MODARABA

8. To furnish and to provide deposits and guarantee funds required in relation to any tender or application for any contract, concession, decree, enactment, property or privilege, or in relation to carrying out of any contract, concession, decree or enactment.
9. To subscribe for, take, acquire, underwrite, and deal in stocks, shares, bonds, mortgage, modaraba certificates, term finance certificate, obligations and securities of all kinds.
10. To undertake the office of receiver, liquidator, attorney and delegate, and to discharge the duties and functions incidental thereto under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980.
11. To keep for any company, government authority or body, any register relating to any stocks, funds, shares or securities or to undertake any duties in relation to the registration of transfers, the issue of certificates or otherwise.
12. To receive and hold securities and valuables of all kinds for custody and generally to carry on the business of a safe deposit company, also to collect and receive all dividends, share of profit and other payables or receivables in respect of any of the securities so held as allowed by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980.
13. To take or concur in taking all such steps and proceedings as may seem best calculated to uphold and support the credit of the Company, and in particular to obtain the guarantee or indemnity of any company or person for the benefit of any person or company dealing with or concerned in the performance of any duty or obligation by the Company.
14. To purchase or otherwise acquire and undertake all or any part of the business, property and liabilities of any person or company carrying on any business which the Company is authorized to carry on, or possess property suitable for the purposes of this Company.
15. To enter into any arrangement with any government or authorities, supreme, municipal, local or otherwise, and to obtain from any such government or authority all rights, concessions and privileges that may seem conducive to the Company's objects or any of them.
16. To enter into any partnership or into any arrangement for sharing profits, union of interests, joint ventures, reciprocal concession or co-operation, with any person or company carrying on or engaged in or about to carry on or engage in any business or transaction which this Company is authorized to carry on or engage in, or any business or transaction capable of being conducted so as directly or indirectly to benefit this Company, and take or otherwise acquire, and hold shares or stocks in or securities of and to subsidise or otherwise assist any such company, and to sell, hold, re-issue, with or without guarantee, or otherwise deal with such shares or securities.
17. Generally to purchase, or otherwise acquire any real or personal property and any rights or privileges which the Company may think necessary or convenient with reference to any of these objects, or acquisition of which may seem calculated to facilitate the realisation of any securities held by the Company, or to prevent or diminish any apprehended loss or liability, or which may seem capable of being profitably dealt with by way of resale or otherwise, and in particular any lands, buildings, ground rents, reversions, policies of assurance, life interests, choses-in-action, book debts and other assets.
18. To establish and support, or to aid in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit any of the employees or ex-employees of the Company or its predecessors in business, or any of the dependents or connections of any such persons, and to grant pensions and allowances to any such persons, dependents or connections and to make payments towards insurance thereof respectively, and generally to subscribe or guarantee money to or for charitable or benevolent objects, or to or for any exhibition, or to or for any public, general or useful object.
19. To sell or dispose of the undertaking of the Company or any part thereof for such consideration as the Company thinks fit, and in particular for shares, debentures or securities of any other company having object altogether or in part similar to those of this Company.

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**FIRST NATIONAL BANK MODARABA**


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20. To promote any company or companies for the purpose of acquiring all or any of the property, rights and liabilities of this Company, or for any other purpose which may seem directly or indirectly calculated to benefit this Company.
21. To invest and deal with the moneys of the Company, not immediately required, upon such securities in such manner as may from time to time be determined.
22. To obtain any Act of the Government of Pakistan for enabling the Company to carry any of its objects into effect, or for effecting any modification of the Company's constitution, or for any other purpose which may seem expedient and to oppose any proceedings or applications which may seem calculated directly or indirectly or prejudice the Company's interests.
23. To borrow or secure the payment of money in such manner and on such terms as may seem expedient, and in particular by the creation of debentures or debenture-stock, and term finance certificates, mortgages, charges or other securities whatsoever, whether specific or general, and whether perpetual or otherwise, and whether charged or not charged upon the whole or any part of the property of the Company, both present and future.
24. To procure the Company to be recognized in any country outside Pakistan.
25. To distribute any of the assets of the Company in specie amongst its members or any class or classes of members or any individual member in case of liquidation.
26. To pay all expenses of and incidents at the formation and launching of the Company, and to remunerate any parties for services rendered or promotion of the Company, or the conduct of its business.
27. To do all or any of the above things in any part of the world, and either as principals, agents, contractors, or otherwise, and either alone or in conjunction with others, and either by or through agents, sub-contractors or otherwise, and either for reward or gratuitously.
28. To sell, improve, manage, develop, exchange and enfranchise, mortgage, dispose of, turn to account or otherwise deal with all or any part of the property and rights of the Company.
29. To carry on any other modaraba business which may seem to the Company capable of being conveniently carried on in connection with the above or calculated directly or indirectly to enhance the value or render profitable any of the Company's property or rights.
30. To do all such other things as are incidental or conducive to the attainment of the above objects and so that the word "Company" in the clause shall be deemed to include any partnership or other body of persons whether incorporated or not incorporated and whether domiciled in Pakistan or elsewhere, and the intention is that the objects specified in each paragraph in this clause shall, except where otherwise expressed in such paragraph, be in no way limited or restricted by reference to or inference from the terms of any other paragraph of this clause or the name of the Company.
31. Notwithstanding anything written above in this clause, the Company or any modaraba floated by it shall not engage in any banking activity or any activity or business which is contrary to the injunctions of Islam or which may involve the element of riba in any form whatsoever and not to act as investment insurance, leasing, or managing agency business company or any unlawful business.

**LIABILITY**

- IV. The Liability of the members is limited.

**SHARE CAPITAL**

- V. The Authorized Capital of the Company is Rs. 150,000,000/- (Rupees One hundred fifty million only) divided into 15,000,000 (Fifteen million) shares of Rs. 10/- (Rupees Ten) each.

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The Directors  
National Bank Modaraba Management Co. Ltd.  
National Bank Building  
26-Melagon Road,  
Lahore.

**For applicants opting for credit to their account in the Central Depository Company of Pakistan Limited**  
(Please refer to instruction No. 3 on the reverse hereof)

For Company Use only

(Please fill in any one of the applicable Category)

Please fill in only one of the applicable categories:						
CDC PARTICIPANT ID	SUB-ACCOUNT/ HOUSE ACCOUNT NO	CDC PARTICIPANT ID	GROUP ACCOUNT NO	CDC INVESTOR A/C SERVICES ID	CDC INVESTOR A/C NO	
CDC PARTICIPANT NAME						

Gentlemen,

1. I/We enclose the sum of Rs. \_\_\_\_\_ being the amount payable on application for \_\_\_\_\_ certificates of Rs. 10 of First National Bank Modaraba on account of subscription money.

Category of Application	Amount (Rs.)
For 500 Certificates & in multiples 500 certificates	

2. I/We apply for and request you to allot me/us the above number of certificates for the value indicated above and I/we agree to accept the same or any smaller number that may be allotted to me/us upon the terms of the Modaraba's Prospectus and subject to the Memorandum and Articles of Association of the Company and I/we authorize you to send the certificates allotted to me/us pursuant to this application and in case no certificates are allotted to me/us you are hereby authorized to return to me/us by cheque or other means any application money by post at my/our risk to the first address written below or to the bank through which I/We tender this application.

3. I/WE DECLARE THAT

- i. I AM/WE ARE NATIONAL(S) OF PAKISTAN AND RESIDENT(S)/NON RESIDENTS IN PAKISTAN.  
ii. I AM/WE ARE NOT MINOR(S).  
iii. I/WE HAVE NOT MADE NOR HAVE I/WE INSTRUCTED ANY OTHER PERSON(S) / INSTITUTION(S) TO MAKE ANY OTHER APPLICATION(S) IN MY/OUR NAME(S) OR IN THE NAME OF ANY OTHER PERSON ON MY/OUR BEHALF OR IN ANY FICTITIOUS NAME.  
iv. I/WE AGREE TO ABIDE BY THE INSTRUCTIONS PRINTED OVERLEAF AND IN CASE OF ANY INFORMATION GIVEN HEREIN BEING INCORRECT I/WE UNDERSTAND THAT I/WE SHALL NOT BE ENTITLED TO THE ALLOTMENT OF CERTIFICATES.

Yours faithfully,

4. FULL NAME(S) & ADDRESS(ES) MUST BE WRITTEN IN BLOCK LETTERS. PLEASE ALSO INDICATE MR./MISS/MRS. BEFORE THE NAME(S) IN CASE OF DIFFERENCE OF SIGNATURE(S) WITH THE BANK AND ON NIC, BOTH SIGNATURES SHOULD BE AFFIXED ON THIS FORM.

FOR JOINT HOLDERS		OCCUPATION CODE	
(a) Name in full (Mr/Miss/Mrs.)			
Father's/Husband's Name		Address	
Banker's Name			
Address & Account No.			
Tick Whether Muslim or Non-Muslim	Muslim	Non-Muslim	NIC No.
(b) Name in full (Mr/Miss/Mrs.)			
Father's/Husband's Name		Address	
Banker's Name			
Address & Account No.			
Tick Whether Muslim or Non-Muslim	Muslim	Non-Muslim	NIC No.
(c) Name in full (Mr/Miss/Mrs.)			
Father's/Husband's Name		Address	
Banker's Name			
Address & Account No.			
Tick Whether Muslim or Non-Muslim	Muslim	Non-Muslim	NIC No.
(d) Name in full (Mr/Miss/Mrs.)			
Father's/Husband's Name		Address	
Banker's Name			
Address & Account No.			
Tick Whether Muslim or Non-Muslim	Muslim	Non-Muslim	NIC No.

PLEASE INDICATE THE APPLICABLE CODE NUMBER OF OCCUPATION AS PER OVER LEAF

(TO BE FILLED IN BY THE APPLICANT'S BANKER)

I, \_\_\_\_\_ Manager of \_\_\_\_\_ (the "Bank") certify that the Bank has not advanced any money for the purpose of this application/has advanced Rs. \_\_\_\_\_/- for the purpose of this application and that to the best of my knowledge and belief, the declaration of or on behalf of the applicant contained in sub paragraph (iii) of paragraph 3 above is correct.

MANAGERS SIGNATURE

SPECIMEN SIGNATURE(S) OF APPLICANT(S) OR OF THE BANKER OR BROKER ON BEHALF OF THE APPLICANT(S) (THIS WILL NOT BE SIGNED BY THE BANKER/BROKER IF APPLICATION IS FOR 500 CERTIFICATES)

NAME(S) IN BLOCK LETTERS	SPECIMEN SIGNATURE(S)
(a) Mr/Miss/Mrs.	(a)
(b) Mr/Miss/Mrs.	(b)
(c) Mr/Miss/Mrs.	(c)
(d) Mr/Miss/Mrs.	(d)

Banker's provisional acknowledgement for application of ordinary certificates of FIRST NATIONAL BANK MODARABA  
Received from \_\_\_\_\_ an application for \_\_\_\_\_ certificates of Rs. 10/-

Name of Bank	Branch Code	Serial No.	Date of Receipt
--------------	-------------	------------	-----------------

Signature & Rubber Stamp of Receiving Bank

**IMPORTANT:** This slip must be retained by the Applicant

Fictitious and multiple (i.e., more than one) applications are prohibited and such applicants' money shall be liable to confiscation under Section 18-A of the Securities and Exchange Ordinance, 1969.

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APPLICATION AND ALLOTMENT INSTRUCTIONS

- Name(s) and address(es) must be written in full in block letters in English and should not be abbreviated. All applications must bear the signature(s) and address(es) corresponding with that recorded with the bank in the applicant's account. *In case of difference of signature with the bank and on the National Identity Card, both the signatures should be affixed on the application form.*
- APPLICATION MUST BE MADE ON THE MODARABA'S PRINTED FORM OR A LEGIBLE PHOTOCOPY THEREOF. Non-resident Pakistani nationals must submit their applications in duplicate alongwith the declaration attached to the applications.
- The applicants opting for scrip-less form of security are required to complete the relevant sections of the application form. In case of discrepancy between the information provided in the application form and the information already held by CDC, the Modaraba Company reserves the right to issue the modaraba certificates in physical form.
- An Attested Copy of the National Identity Card should invariably be enclosed and the number indicated on each application, except in case of the applications filed by the Investment Corporation of Pakistan on behalf of its account holders/investors, and applications filed by limited companies and bodies corporate. Copy of the National Identity Card can be attested by any Federal/Provincial Government Gazetted Officer, Counselor, Bank Manager, Oath Commissioner and Head Master of High School etc.
  - Original National Identity Card, along with one attested photocopy, must be produced for verification by the bank branch at the time of presenting an application. The attested photocopy will, after verification, be retained by the bank branch alongwith the application.
- Application must be made for certificates of Rs. 5,000/- or in multiples thereof. Application for certificate below the value of Rs.5,000/- shall not be entertained.
  - Modaraba Certificates will be issued in marketable lots of 500 Certificates of Rs.10/- each.
- Subscription money must be paid by cheque drawn on applicant's own account.
  - Only one application will be accepted against each account. In case of joint accounts, one application will be accepted in the name of each of the joint account holders. No application will be accepted in the name of a person shown as minor in the records of the Bank.
- Copies of the Prospectus and Application Forms can be obtained from the members of the Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited, the Bankers to the Issue and their branches, Consultants to the issue and the Registered Office of the National Bank Modaraba Management Company Limited.
- Remittance for the full amount of Certificates of Rs.10/- each must accompany each application and must be forwarded to any one of the Bankers to the Issue named in the Prospectus. Payment should be in the form of cheque(s) or draft(s) drawn payable to one of the Bankers to Issue "A/C FIRST NATIONAL BANK MODARABA" and crossed "A/C PAYEE" and must be drawn on a bank in the same town as the bank to which the application form has been sent. Subscription money must be paid by cheque drawn on applicants own account.
- Application shall not be made by or on behalf of minors and/or persons of unsound mind or firms or trusts. Applications made by companies and corporate bodies must be accompanied by a copy of their Memorandum and Articles of Association or equivalent instrument. Where applications are made by virtue of instrument of Power of Attorney, the instrument of Power of Attorney or notorially certified copy must be lodged with the application.
- Joint applications by more than four persons shall not be accepted. In case of joint application, each person must sign the application form and submit attested copies of National Identity Card. The Modaraba Certificates will be despatched to the person whose name appears first on the application form, while in case of CDS it will be certified to the respective CDC account and where any amount is refundable, in whole or in part, the same will be refundable by cheque and by post, to the person named first on the application form, without interest, or through the bank where the application is tendered.
- Banks are not allowed to make application for the Modaraba Certificates of the value of Rs.5,000/- on account of their constituents in the case of resident Pakistanis. Such application shall be made by the subscriber himself, complete in all respects and shall be certified by the Bank Manager as provided in the application form. Modaraba Certificates in respect of such applications shall be issued in the name of the applicant and sent to the postal address stated by the applicant or to the bank through which the application is tendered, while in case of CDS it will be certified into the respective CDC account. These Modaraba certificates shall not be issued in the name of the Bankers.
- Application for the Modaraba Certificates of the value of Rs.5,000/- in the case of non-resident Pakistanis and in other cases above the nominal value of Rs. 5,000 may be made by banks on behalf of their constituents but must contain all information in respect of each constituent on the application form. All such applications made by banks must also be certified by the Bank Manager concerned as provided in the application form. Modaraba Certificates in respect of such applications will be issued in the name of banks on account of the constituent and the relevant Modaraba Certificates and advices for refund, if any, will be sent to the bank concerned.
- No receipt will be issued for payment made with the application but an acknowledgement will be forwarded in due course either by issue of Modaraba Certificates, in whole or in part, or by refund of the money paid with the application. The receiving bankers will issue provisional acknowledgement for applications lodged with them. No interest or profit will be payable in respect of the refunded amount.
- It would be permissible for a bank to refund subscription money to an unsuccessful applicant having an account in that bank by crediting such account instead of remitting the same by cheque, pay order or bank draft. Applicants should, therefore, not fail to give their bank account number.
- Allotment shall be made in accordance with the instructions laid down by the Securities and Exchange Commission of Pakistan.
- Application shall be subject to pre-ballot as well as post-ballot scrutiny. Applications, which do not meet the above requirements, or applications which are incomplete will be rejected. Subscription money in respect of rejected application shall not be refunded without the approval of the Securities and Exchange Commission of Pakistan.
- In case of applications made by a banker or recognised Stock Exchange member, the Banker to the Issue or the member shall obtain the Certificates from the applicant(s) in terms of paragraph(3) of the application form and forward the same in original to NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED with the application.
- Balloting of the applications will be restricted to only such application which are complete in all respects. Failure to adhere to the above requirements may result in post ballot rejection of the application.
- Making of any false statements in the application or willfully supplying of incorrect information therein make the applicant or the bank liable to legal action.
- The basis and conditions of allotment to the general public shall be as follows:
  - The minimum amount of application for subscription of Modaraba Certificates is Rs.5,000/-.
  - Application for certificates below the total value of Rs.5,000/- shall not be entertained.
  - Fictitious and multiple (i.e. more than one) applications are prohibited and such applicants' money shall be liable to confiscation under Section 18-A of the Securities and Exchange Ordinance, 1969.
  - Application must be made for certificates of Rs.5,000/- or in multiples thereof.
  - If the certificates to be issued to the general public are sufficient for the purpose to accommodate all the applications, all applications shall be accommodated.
  - If the issue is oversubscribed both in terms of number of applications and amount, the certificates will be allotted by conducting computer balloting in the presence of the representatives of the KSE and LSE.
  - If the issue is oversubscribed in terms of amount only, then all applications shall be accommodated initially for certificates of Rs.5,000/- each and the balance certificates shall be allotted on pro-rata basis to all applicants who applied for certificates in multiples of Rs.5,000/-.
  - Allotment of certificates will be subject to scrutiny of applications for subscription.

CODE OF OCCUPATIONS			
1.	Business	2.	Business Executive
3.	Service	4.	Housewife
5.	Household	6.	Professional
7.	Student	8.	Agriculturist
9.	Industrialist	10.	Others
CODE BANKERS TO THE ISSUE			
01	National Bank of Pakistan		
02	Habib Bank Limited		
03	United Bank Limited		
04	Muslim Commercial Bank Limited		
05	Meezan Bank Limited		

Certified to be True Copy

ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad





# ANNUAL REPORT | 2017

**FIRST NATION**

**Ma**

National Bank Modara  
| A wholly owned subsidi

Certified to be True Copy

ATIF RAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan

Annex-I

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## Annual Report 2017

## CORPORATE INFORMATION

Board of Directors*	Syed Irtiza Kazmi Khawaja Muhammad Amin-ul-Azam Khawaja Waheed Raza Mr. Jamal Nasim Mr. Muhammad Iqbal Hussain Mr. Aamir Amin Mr. Abbas Azam	Chairman Director Director Director Director Director Chief Executive Officer
Shari'ah Advisor	Mufti Ehsan Waquar Ahmed	
Chief Financial Officer/ Company Secretary	Mr. Ali Abbass	
Audit Committee	Mr Jamal Nasim Khawaja Muhammad Amin-ul-Azam Khawaja Waheed Raza Mr. Aamir Amin	Chairman Member Member Member
HR & Remuneration Committee	Khawaja Waheed Raza Khawaja Muhammad Amin-ul-Azam Mr. Muhammad Iqbal Hussain	Chairman Member Member
Shares Registrar	Hameed Majeed Associates (Pvt.) Limited H. M. House, 7 - Bank Square, Lahore Tel: 37235081-2, Fax: 37358817	
Auditors	Riaz Ahmad & Company Chartered Accountants	
Legal Advisor	Cornelius Lane & Mufti Advocates and Solicitors Nawa-i-Waqt House, 4-Shahrah-e-Fatima Jinnah, Lahore Tel.: 36360824, Fax: 36303301	
Bankers	National Bank of Pakistan Bank Alfalah Limited Al Baraka Islamic Bank Habib Bank Limited Allied Bank Limited MCB Bank Limited First Women Bank Limited Bank Islami Pakistan Limited United Bank Limited	
Registered Office	Ground Floor, NBP RHQs Building, 26-McLagon Road, Lahore Tel: 042-99211200, Fax: 042-99213247 URL: <a href="http://www.nbmodaraba.com">http://www.nbmodaraba.com</a> E-mail: <a href="mailto:info@nbmodaraba.com">info@nbmodaraba.com</a>	

\* Subsequent to year end Mr. Irtiza Kazmi and Mr. Khawaja Muhammad Amin-ul-Azam were replaced by Mr. Rehmat Ali Hasnie and Mr. Jamal Baquar as NBP nominee director.

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**First National Bank Modaraba**

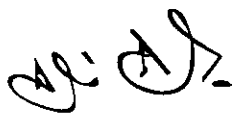
**NOTICE OF 14TH ANNUAL REVIEW MEETING & BOOK CLOSURE**

Notice is hereby given that the 14<sup>th</sup> Annual Review Meeting of certificate holders of First National Bank Modaraba will be held on Tuesday, October 31, 2017 at 11:00 a.m. at 4<sup>th</sup> Floor, NBP RHQs Building, 26 – McLagon Road, Lahore to review the performance of the Modaraba for the year ended June 30, 2017.

The Certificate Transfer Book will remain closed from October 21, 2017 to October 31, 2017 (both days inclusive) for the purpose of eligibility to attend the Annual Review Meeting.

The certificate holders whose names appear on the Register of Certificate Holders of First National Bank Modaraba at the close of business as on October 20, 2017 will be eligible to attend the Annual Review Meeting. All transfers received in order, up to the close of business on October 20, 2017 at our Registrar's Office, Hameed Majeed Associates (Pvt.) Limited, H.M House, 7 – Bank Square, Lahore will be considered in time.

**By order of the Board**



**Ali Abbass**

Company Secretary

National Bank Modaraba Management Company Limited

Managers of First National Bank Modaraba

Lahore: October 05, 2017

**Vision:**

To offer Shariah complaint Islamic Financial Products in the financial market so as to achieve optimum customer satisfaction and develop sustainable business relationships.

**Mission:**

Promote an Islamic Financial Institution where values of management excellence, professionalism, human resource development are promoted such that interests of all stakeholders are safeguarded.

## First National Bank Modaraba



### Annual Shari'ah Advisor's Report

I have conducted the *Shari'ah* review of First National Bank Modaraba managed by National Bank Modaraba Management Company Limited (NBMMCL), a wholly owned subsidiary of National Bank of Pakistan for the financial year ended June 30, 2017 in accordance with the requirements of the *Shari'ah Compliance and Shari'ah Audit Mechanism for Modarabas* and report that except the observations as reported hereunder, in my opinion:

- i. The Modaraba has introduced a mechanism for *Shari'ah* compliance and the systems, procedures and policies adopted by the Modaraba are in line with the *Shari'ah* principles;
- ii. No significant developments took place during the year.
- iii. the financing agreement(s) entered into by the Modaraba are *Shari'ah* compliant and the financing agreement(s) have been executed on the formats as approved by the Religious Board and all the related conditions have been met;
- iv. To the best of my information and according to the explanations given to me, the business transactions undertaken by the Modaraba and all other matters incidental thereto are in conformity with the *Shari'ah* requirements as well as the requirements of the Prospectus, Islamic Financial Accounting Standards as applicable in Pakistan and the *Shari'ah Compliance and Shari'ah Audit Regulations for Modarabas*
- v. Profit sharing ratios, profits and charging of losses (if any) relating to any deposit raising product conform to the basis and principles of *Shari'ah*.
- vi. The earnings that have been realized from the sources or by means prohibited by *Shari'ah* have been credited to charity accounts.

#### Observation(s)

During my review, it has been observed that:

- i. FNBM is maintaining bank accounts with conventional Bank.
- ii. Financing from conventional Bank(s) have been secured.
- iii. No training was conducted for the staff

**Recommendation(s)**

Following are some recommendation:

- i. FNBM must maintain account in Islamic Banks/Islamic Windows of Conventional Banks only.
- ii. All credit lines with conventional banks must be replaced with Islamic Banking facilities. This must be done by December 31, 2017.

**Conclusion**

Based on the above-mentioned fact, I am of the view that the business operations of First National Bank Modaraba are Shariah compliant up to the best of my knowledge.

E.W. 

**Mufti Ehsan Waqar Ahmad**  
**Shariah Advisor**

**Signature**

*Mufti Ehsan Waqar*  
*Shari'ah Advisor*

Dated: October 3, 2017

## DIRECTORS' REPORT

Board of Directors of National Bank Modaraba Management Company Limited (NBMMCL), the management Company of First National Bank Modaraba (FNBM), is pleased to present the directors report on the 14<sup>th</sup> annual accounts of FNBM for the period ended June 30, 2017. These accounts have been audited by the statutory auditors of the Modaraba and are accompanied by their audit report.

### 1. Sector Outlook:

	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015	Year Ended June 30, 2014	Year Ended June 30, 2013	Year Ended June 30, 2012
Balance Sheet Size	508,478,472	841,306,270	1,248,349,011	1,692,658,474	2,003,442,328	1,962,968,244
Total Equity	16,333,070	87,692,752	141,525,254	263,701,324	297,913,401	339,775,945
Total Operating & Other Income	179,801,462	314,368,924	451,401,503	558,123,884	567,094,855	605,820,667
Operating & Financial Exp.	(163,231,481)	302,048,194	460,444,217	592,335,961	583,957,399	575,113,425
Profit for the period	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)	(16,862,544)	30,707,724
Modaraba Co.'s Management Fee	Nil	Nil	Nil	Nil	Nil	3,070,724
Net profit after tax	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)	(16,862,544)	27,636,518
Earning per certificate (Rs.)	(2.85)	(2.15)	(4.89)	(1.37)	(0.67)	1.11
Return on Assets (%)	(13.9)	(6.39)	(9.76)	(2.01)	(0.83)	1.38
Return on Equity (%)	(436.9)	(21.52)	(87.14)	(12.92)	(5.65)	8
Dividend Paid (%)	Nil	Nil	Nil	Nil	Nil	10
Breakup value per certificate (Rs.)	0.64	3.50	5.64	10.52	11.88	13.56

### 2. Sector Outlook:

The economy during 2016-2017 more or less continued at the pace as it did in the last fiscal year; however the revival of the real sector of the economy did not come about as was anticipated considering the positives signal being given by rising stock market indices. Perhaps it was primarily because of investors' expectations about economy and political stability did not materialize, that the stock market shed almost 20% of its value by the end of the fiscal year. The energy shortage appears to have mitigated to some extent, however its impact on inducing investments in long term industrial projects was not visible. On the other hand the ongoing public sector investments in infrastructure and energy projects, once completed, will carry potential for inducing private and foreign investment in the real sector of the economy.

Financial sector in Pakistan also remained more or less steady. The sustainable performance of financial sector would, however, again depend on the growth of real sector. Under the circumstances the NBF and modaraba sectors have shown moderate returns during the period. Islamic financing carries good potential for the future and hence Modarabas can also prosper by developing their own niche markets through innovation and product development.



## Annual Report 2017

### Going Concern Assumption

As a serious policy guideline, the Board ensured under all circumstances, that the charge of provisioning on non-performing portfolio is in line with existing regulations. The deterioration of the quality of assets booked long ago attracted substantial provisions. In order to keep provisions at the stipulated level the Modaraba has therefore been incurring losses.

Within its existing constraints and looking to the interest of all stakeholders, the Board of Directors of the parent bank, National Bank of Pakistan (NBP) in their board meeting held on 21 April 2017 authorized the Management Company to explore various appropriate options including the cessation of the operations of the Modaraba and management company. Consequently, the board of directors of the Management Company in their meeting held on the same date also passed a resolution to explore various options in order to achieve cessation of operations of the Modaraba. In this respect an appropriate decision will be taken in the best interest of the stakeholders, especially the certificate holders, with the approval & guidance of SECP.

Under the circumstances the going concern assumption was no longer valid. Accordingly these financial statements have been prepared using the non-going concern basis of accounting on estimated realizable / settlement values of the assets and liabilities respectively.

The external auditors have included an "emphasis of matter paragraph" in their audit report on going concern ability of FNBM and on the estimate of current realizable values of assets.

### Review of Operations:

During the period under review, the management remained focused only on recovery from non-performing portfolio. Several recovery suits were initiated against defaulter parties, and some cash settlements were also made. Resultantly the overall classified portfolio declined notably from its last year amount. The regular portfolio performed well and generated income consistently.

The balance sheet size shrunk from Rs.841 million in the corresponding year to Rs.508 million this year. The Income from credit portfolio as well as the finance cost got proportionately lower. Despite general inflation the operating expenses were kept under control and were reduced by 6.2% from Rs.16 Million last year to Rs.15 Million this year. Furthermore mainly due to gain on sale of assets under Ijarah arrangements there has been an increase in operating profit by 25% from Rs.12 Million last year to Rs.16 Million this year. However due to charge of provisioning on account of valuation of some old NPLs to estimated current realizable values the net loss after tax for the year figured Rs.71 Million as against loss of Rs.54 Million last year. The loss per certificate accordingly remained at Rs.2.85 as against Rs.2.15 in the corresponding year. Had the accounts been prepared under going concern basis the EPC would have figured Rs.1.56.

Despite losses we were able to manage our liquidity such that FNBM did not default on any of the financial obligation to any of its financial institutions. During the period we completely paid off the outstanding balances all banks except for the parent bank NBP.

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## **First National Bank Modaraba**

FNBM ensures conformity with the Shariah compliance and Shariah audit mechanism for Modarabas. In this respect Sharia'h Advisor's report is attached. The amounts advised by the Sharia'h advisor to be paid as charity, has been credited to the charity account. During the year, an amount of Rs.0.4 Million was paid as charity to approved charitable institutions as per policy approved by the board of directors.

### **Profit Distribution**

Board in its meeting held on October 05, 2017 did not declare any dividends due to the aforementioned reasons.

### **3. Future Outlook:**

Some major industrial sectors like textile sector have been in recession for last few years, consequently affecting their ability to honor obligations towards financial institutions. Since FNBM's classified portfolio is substantially exposed to textile sector, the challenge before FNBM remains the recovery of this exposure. In the meantime options are being explored in the best interest of the certificate holders.

### **4. Corporate and Financial Reporting Framework:**

- The financial statements, prepared by the management of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Modaraba have been maintained.
- Accounting policies have been applied consistently, unless otherwise stated in financial statements, in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, International accounting standards, and Islamic Financial Accounting Standards as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements.
- The system of internal control, which is sound in design is in place and is being continuously reviewed by internal audit. The process of review will continue and any weakness in controls will be removed.

## Annual Report 2017

- Board is of the view that Modaraba may not be able to confirm to the regulation concerning its going concern ability.
- There has been no material departure from the best practices of corporate governance as detailed in the listing regulations except for those specifically mentioned in the statement of compliance with the CCG.
- There are no statutory payments on account of taxes, duties, levies and charges, which are outstanding as on June 30, 2017 except those disclosed in the financial statements.
- During the year ended June 30, 2017 eight (07), meetings of the Board of Directors were held. Besides (04) four Audit committee and (03) one HR Committee meetings were also held. Attendance by each directors is as follows:

Name	No. of Attendance		
	Board	Audit Committee	HR Committee
i. Syed Hasan Irtiza Kazmi	6	N/A	N/A
ii. Khawaja Muhammad Amin-ul-Azam	7	4	2
iii. Khawaja Waheed Raza	5	2	3
iv. Syed Mustafa Kamal	1	N/A	N/A
v. Mr. Jamal Nasim	6	3	N/A
vi. Mr. Muhammad Iqbal Hussain	7	N/A	3
vii. Mr. Aamir Amin	5	2	N/A
viii. Mr. Khaqan Hasnain Ibrahim	1	N/A	N/A
ix. Mr. Abbas Azam	6	N/A	N/A

Subsequent to the financial year end NBP nominated its Executive, Mr. Rehmat Ali Hasnie and Syed Jamal Baquar as its nominee directors on the board in place of Syed Hasan Irtiza Kazmi and Khawaja Muhammad Amin-ul-Azam. Leave of absence was granted to directors who could not attend some of the Board meetings.

The remuneration of the CEO and meeting fee of the non-executive members of the board of directors are paid by the management company, NBMMCL.

The pattern of certificate holders is annexed.

### 5. Auditors:

The present auditors, M/s. Riaz Ahmed & Co Chartered Accountants, Chartered Accountants, retired during the year. The new auditors M/s. Riaz Ahmed & Co Chartered Accountants have given their consent to act as auditors for the year ending June 30, 2018. Their appointment is subject to approval by the Registrar, Modaraba Companies and Modarabas, after confirmation by the board.

**First National Bank Modaraba****6. Acknowledgement:**

The Board would like to take this opportunity of expressing gratitude and thanks to our valued customers for their patronage and support, the Securities and Exchange Commission of Pakistan, Pakistan Stock Exchange, and NBF & Modaraba Association of Pakistan for their continued support and guidance.

**For and on Behalf of the Board**



**Chief Executive Officer**

## ڈائریکٹرز رپورٹ

فرسٹ نیٹشل بینک مونیٹری بینک مونیٹری بینک (FNB) کی انتظامی کمپنی نیٹشل بینک مونیٹری بینک (NBMMCL) کے بورڈ آف ڈائریکٹرز 30 جون 2017ء اختتام پزیر مدت کے لئے FNB کے چوبیسویں سالانہ اکاؤنٹس پر ڈائریکٹرز کی رپورٹ پیش کرنے میں خرمحسوس کرتے ہیں۔ یہ نکات مفسرہ کے قانونی آڈیٹرز کی جانب سے آڈٹ کے لئے دیے گئے ہیں اور ان کی آڈٹ رپورٹ ساتھ منسلک ہے۔

### 1. مالیاتی نتائج

30 جون 2017ء	30 جون 2016ء	30 جون 2015ء	30 جون 2014ء	30 جون 2013ء	30 جون 2012ء
1,902,968,244	1,248,349,011	1,092,658,474	2,003,442,328	1,902,968,244	1,902,968,244
339,775,945	141,525,254	263,701,324	297,913,401	339,775,945	339,775,945
605,820,867	451,401,503	558,123,884	567,094,855	605,820,867	605,820,867
575,113,425	460,444,217	592,335,981	583,957,399	575,113,425	575,113,425
30,707,724	(122,176,070)	(34,212,077)	(16,862,544)	30,707,724	30,707,724
3,707,724	nil	nil	nil	3,707,724	3,707,724
27,636,518	(53,832,502)	(122,176,070)	(34,212,077)	(16,862,544)	27,636,518
1.11	(2.15)	(4.89)	(1.37)	(0.67)	1.11
1.38	(6.39)	(9.76)	(2.01)	(0.83)	1.38
8	(21.52)	(87.14)	(12.92)	(5.65)	8
nil	nil	nil	nil	nil	nil
13.56	3.50	5.64	10.52	11.88	13.56

### 2. شعبہ پر نظر

سال 2016-17 کے دوران معیشت گتہ شدہ مالی سال کے مقابلہ میں مسلسل رفتاریں ساتھ رواں رہی۔ تاہم معیشت کے حقیقی سیکٹر کا ادیا و سناک مارکیٹ انڈیکس کی سطح کے مثبت اشاروں کو مد نظر رکھتے ہوئے اس طرح سے نہ ہوا جس طرح توقع کی جا رہی تھی۔ یہ ابتدائی طور پر معیشت اور سیاسی استحکام سے متعلق سرمایہ داروں کی توقعات کی وجہ سے تھا لیکن اس سے خاطر خواہ فوائد و منافع حاصل ہو سکا۔ یہ کہانی سال کے اختتام پر سناک مارکیٹ میں تقریباً 20 فی صد کا خسارہ دیکھنے میں آیا۔ تو اتنی کے بحران پر کافی حد تک قابو پایا جا چکا ہے تاہم لیکن طویل مدت کے لئے اند سطر مل منصوبوں میں سرمایہ داری کی طرف راغب کرنے پر اس کا اثر سامنے نظر نہیں آ رہا تھا۔ دوسری طرف بنیادی ڈھانچے اور توانائی کے منصوبوں میں پبلک سیکٹر کی جاری سرمایہ داری جیسے ہی مکمل ہو جائے گی اسی وقت معیشت کے حقیقی سیکٹر میں ملکی اور غیر ملکی سرمایہ دار داخل ہوں گے۔

پاکستان میں مالیاتی شعبہ تقریباً مستحکم رہا۔ تاہم مالیاتی شعبہ کی قابل تہدیک کارکردگی نے حقیقی سیکٹر میں پیداوار پر منحصر کیا۔ ان حالات میں NBFI اور مفسرہ پیکٹر نے اس مدت کے دوران معتدل ریفرنگا پر کئے۔ اسلامی سرمایہ داری کا مستقبل بہت روشن ہے اور مفسرہ پیکٹر جدت اور مصنوعات کی بہتری کے ذریعے اپنی متعلقہ مارکیٹ میں ترقی کر سکتا ہے۔

### کاروبار جاری رکھنے کی توقعات

بورڈ نے ہر حال میں یہ یقینی بنایا کہ غیر فعال پورٹ فولیو پر پرویزن موجودہ روابط کے مطابق رہیں۔ کافی عرصہ پہلے دیے گئے اثاثوں کے معیار میں کمی میں بڑی پرویزن اثر یکتا کیں۔ پرویزن کو سٹیپیو لیٹڈ لیول رکھنے کی وجہ سے مضاربہ کو نقصان بڑھ رہا ہے۔

ان موجودہ رکاوٹوں میں رہتے ہوئے اور تمام سٹیک ہولڈرز کے مفادات کو دیکھتے ہوئے پیرنٹ بینک، نیشنل بینک آف پاکستان (NBP) کے بورڈ آف ڈائریکٹرز نے 21 اپریل 2017ء منعقدہ بورڈ کے اجلاس میں انتظامی کمپنی کو اختیار دیا کہ وہ موزوں طریقہ کار اخذ کریں جس میں مضاربہ اور انتظامی کمپنی کے آپریشنز کا شیشیشن وغیرہ شامل ہیں۔ نتیجتاً اسی دن انتظامی کمپنی کے بورڈ آف ڈائریکٹرز کے منعقدہ اجلاس مضاربہ کے آپریشنز کے شیشیشن کے لئے موزوں طریقہ کار کو اخذ کرنے کی غرض سے ایک قرارداد پاس کی۔ اس تناظر میں SECP کی ہدایت اور منظوری سے سٹیک ہولڈرز خاص طور پر سرٹیفکیٹ ہولڈرز کے بہترین مفاد میں فیصلے کئے جائیں گے۔

ان حالات میں کاروبار جاری رکھنے کے مفروضات زیادہ دیر تک قائم نہ ہیں۔ اسی طرح سے یہ مالیاتی اسٹیٹمنٹس نان گوئینگ کنسرن کی بنیاد پر تیار کی گئیں ہیں۔ جو کہ اثاثوں اور واجبات کی قابل قبولی/سٹیلمنٹ اقدار کے تخمینہ پر مبنی ہے۔

بیرونی آڈیٹرز نے اپنے FNBم کی کاروبار جاری رکھنے کی صلاحیت اور اثاثوں کی حالیہ قابل قبول قدر پر آڈٹ رپورٹ میں "معاقلہ کے پیرا پر زور" کا پیرا گراف شامل کیا ہے۔

### آپریٹنگ کا جائزہ

زیر جائزہ مدت کے دوران انتظامیہ غیر فعال پورٹ فولیو سے وصولی پر متوجہ رہی۔ نادہندگان کے خلاف وصولی کے متعدد مقدمات دائر کئے گئے اور کئی نقد وصولیاں بھی ہوئیں۔ نتیجتاً مجموعی کاسیفائیڈ پورٹ فولیو گزشتہ سال کی رقم کے مقابلہ میں نمایاں طور پر کم ہوا۔ باضابطہ پورٹ فولیو نے اچھی کارکردگی دکھائی اور مستقل آمدنی پیدا کرتی رہی۔

بیلنس شیٹ کا ساؤتھ بھی گزشتہ سال میں 841 ملین روپے کے مقابلہ میں 508 ملین روپے کم کر گیا۔ کریڈٹ پورٹ فولیو سے آمدنی بشمول قرضوں کی لاگت نسبتاً کم رہی۔ عمومی افراط زر کے باوجود آپریٹنگ اخراجات قابو میں رکھے گئے اور گزشتہ سال کے 16 ملین روپے کے مقابلہ میں اس 15 ملین روپے ہوئے جو کہ 6.2 فی صد بنتا ہے کم رہے۔ مزید برآں، اجارہ انتظامات کے تحت بنیادی طور پر اثاثوں کی فروخت میں منافع کی وجہ سے آپریٹنگ منافع میں 25 فی صد منافع ہوا جو گزشتہ سال کے 12 ملین روپے کے مقابلہ میں اس سال 16 ملین روپے رہا۔ تاہم چند پرانے NPL کے تخمینہ کی رقم پر منافع کی وجہ سے 54 ملین روپے کے گزشتہ سال کے خسارہ کی نسبت اس سال 71 ملین کا خسارہ ماسوائے ٹیکس دیکھنے میں آیا۔ نقصان سرٹیفکیٹ گزشتہ سال کی اسی مدت میں 2.15 روپے کے مقابلہ میں 2.85 رہا۔ جاری کاروبار کی بنیاد پر کیا اکاؤنٹس مرتب کئے گئے ہیں ای بی سی کی قیمت 1.56 روپے درج کی گئی۔

خساروں کے باوجود ہم اپنی ایصالیت کو برقرار رکھنے کے قابل رہے۔ اور ہم کسی مالیاتی ادارے کو مطلوب مالیاتی فراہمی کی انجام دہی میں ناکام نہیں رہے۔ اس عرصہ کے دوران ہم نے تمام بینکوں کو واجب الادا رقم مکمل طور پر ادا کر دی ہیں ماسوائے بنیادی بینک NBP کے۔ FNBم شریعہ کمپلائنس اور مضاربہ کے لئے شریعہ آڈٹ میکنزم کی تعمیل کو یقینی بناتا ہے۔ اس تناظر میں شریعہ ایڈوائزر کی رپورٹ ساتھ منسلک ہے۔ صدقہ کے طور پر شریعہ ایڈوائزر کی جانب سے مجوزہ رقم چیرینی اکاؤنٹ میں جمع کرا دی گئی ہے۔ سال کے دوران، بورڈ آف ڈائریکٹرز کی جانب سے منظور شدہ پالیسی کے تحت 0.4 ملین روپے کی رقم منظور شدہ وفاقی اداروں کو صدقہ کے طور پر ادا کی گئی۔

## منافع کی تقسیم

30 ستمبر 2017ء کو منعقدہ اجلاس میں بورڈ نے مندرجہ بالا جوابات کی بنیاد پر کسی بھی قسم کا منافع منقسمہ کا اعلان نہ کیا ہے۔

### 3. مستقبل کا پس منظر

کچھ بڑے انداز پر مل ٹیکسز جیسا کہ ٹیکسٹائل ٹیکسز کئی سالوں سے خسارے میں جا رہے ہیں اور نتیجتاً مالی اداروں کی طرف ان کی ادائیگیوں کی اجلاس دہی متاثر ہو رہی ہے۔ چونکہ FNBم کا کاروبار ٹیکسٹائل ٹیکسز کے سامنے عیاں ہے، FNBم کا بنیادی مقصد اس کی وصولی ہے۔ دوسری طرف مختلف صورتوں کا جائزہ لیا جا رہا ہے جو کہ سرٹیفکیٹ کے حاملین کے بہترین مفاد میں ہو۔

4. کارپوریٹ اور مالی رپورٹنگ فریم ورک

1. یہ مالی اسٹینڈنٹ مضاربہ کی انتظامیہ نے مرتب کی ہیں جس میں کمپنی کے امور عمل درآمد کے نتائج، کنٹریکٹس غلو اور ایکوینیٹی میں تبدیلی کو بہتر انداز میں پیش کیا گیا ہے۔
2. کمپنی کی باقاعدہ اکاؤنٹس بکس مرتب کی گئی ہیں۔
3. مالی اسٹینڈنٹ کی تیاری میں مناسب اکاؤنٹنگ پالیسیوں کا تسلسل سے اطلاق کیا جاتا ہے اور اکاؤنٹنگ تخمینے مناسب اور قابل فیصلے کی بنیاد پر لگائے جاتے ہیں۔
4. مالیاتی اسٹینڈنٹ کی تیاری میں بین الاقوامی اکاؤنٹنگ سٹینڈرڈ، جو پاکستان میں قابل عمل ہیں، کا نفاذ کیا جاتا ہے اور میں سے کسی بھی قسم کی منتقلی کو منسب طریقہ سے ظاہر کیا جاتا ہے۔
5. انٹرئل کنٹرول کا نظام بہت اعلیٰ ہے اور اس پر موثر انداز میں عمل درآمد اور نگرانی کی جاتی ہے۔ اور انٹرئل آڈٹ اس کا متواتر جائزہ لے رہا ہے۔ جائزہ کامل جاری رہے گا اور کنٹرول میں کوتاہیوں کو ختم کیا جائے گا۔
6. بورڈ یہ سمجھتا ہے کہ مضاربہ اپنے کاروبار کو جاری رکھنے کی صلاحیت کی تسوئی پر پورا نہیں اترتا۔
7. لسٹنگ ریگولیشن میں بیان کردہ کارپوریٹ گورننس کی بہترین عمل داری کی مد میں کوئی ابہام نہیں ہے۔

## First National Bank Modaraba

8. لسٹف ریگولیشنز میں بیان کئے گئے کوڈ آف کارپوریٹ گورننس کے مثل درآمد میں کوئی ابہام موجود نہیں اسوائے ان کے جن کو CCG کی تعمیل میں بیان میں درج کیا گیا ہے۔

9. ٹیکس، ڈیویڈنڈ، لیویز اور چارجز کی مد میں کوئی قانونی ادائیگی قابل ادائیگی نہیں ہے جو 30 جون 2017 تک واجب الادا دیوں۔ اسوائے ان کے جنہیں مالیاتی اسٹیمٹس میں بیان کیا گیا ہے۔

30 جون 2017 کو اختتام پذیر سال کے دوران آؤٹ کمنٹی کے چار اور HR کمنٹی کے تین اجلاس کے ماہ دو روزہ آؤٹ انریکٹرز کے چار اجلاس منعقد ہوئے۔ انریکٹرز کی حاضری مندرجہ ذیل ہے:

م	تعداد حاضری		
	یورڈ	آؤٹ کمنٹی	ایچ آر کمنٹی
سید حسن ارتضیٰ خان	6	N/A	N/A
نولچہ محمد امین الاعظم	7	4	2
خولجہ وحید رضا	5	2	3
سید مصطفیٰ جمال	1	N/A	N/A
جناب جمال نسیم	6	3	N/A
جناب محمد اقبال حسین	7	N/A	3
جناب مہراٹن	5	2	N/A
جناب خاقان حسین ابراہیم	1	N/A	N/A
جناب حسن اعظم	6	N/A	N/A

مالیاتی سال کے اختتام پر NBP نے ایگزیکٹو، جناب رحمت علی حسنی اور سید جمال ہاقر کو سید حسین ارتضیٰ خان اور خولجہ محمد امین الاعظم کی جگہ تاحر کیا۔ جو انریکٹرز بورڈ کے اجلاس میں شرکت نہ کر سکے ان کو بورڈ کی جانب سے رخصت نہایت کی گئی۔

CEO اور بورڈ آف انریکٹرز کے غیر انتظامی اراکین کے اجلاس کی فیس انتظامی کمپنی NBMMCL نے ادا کی۔ سرٹیفکیٹ کے حاملہ اراکین کی وضع ساتھ منسلک ہے۔



## Annual Report 2017

پاکستان سٹاک ایکسچینج کمیشن

## 5. آڈیٹرز

حالیہ آڈیٹرز میسرز ریاض احمد اینڈ کو، چارٹرڈ اکاؤنٹنٹس سال کے دوران ریٹائر ہو چکے ہیں۔ میسرز ریاض احمد اینڈ کو چارٹرڈ اکاؤنٹنٹس کو 30 جون 2018ء کو اختتام پذیر سال کے لئے تقرری کے لیے رضامندی ظاہر کی ہے۔ جو کہ بورڈ کی توہیک کے بعد جو کہ رجسٹرڈ اور مضاربہ کمپنیز اور مضاربہ کی منظوری سے مشروط ہے۔

## 6. اعتراف

بورڈ اس موقع پر اپنے معزز صارفین کا، بلیک وریڈ اینڈ ایکسچینج کمیشن آف پاکستان کا، پاکستان اسٹاک ایکسچینج، فیڈ کا اور مضاربہ ایسوسی ایشن آف پاکستان کا ان کی مسلسل حمایت، رہنمائی اور سرپرستی کے لیے شکریہ ادا کرنا چاہتا ہے۔

منجانب بورڈ (کے لئے)

*Asim*

چیف ایگزیکٹو آفیسر

## First National Bank Modaraba

### STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance ("the Code") contained in the Regulation 5.19 of Pakistan Stock Exchange Limited for the purpose of establishing a frame work of good governance, where by a listed Modaraba is managed in compliance with the best practices of corporate governance.

Regard less of the fact that National Bank Modaraba Management Company Limited, the Management Company of First National Bank Modaraba ("the Modaraba"), is a public unlisted company, the Board of Directors of the management company are pleased to confirm that the Code is being complied with in all material respects (pertaining to the operations of the Modaraba).

The Modaraba Management Company ("the Company") has applied the principles contained in the Code in the following manner:

1. The company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors ("the Board"). At present the Board includes:

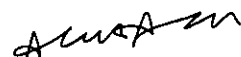
Category	Name
Executive Director	Mr. Abbas Azam
Non-Executive Directors	Mr. Syed Hasan Irtaza Kazmi Mr. Khawaja Muhammad Amin-ul-Azam
Independent Directors	Mr. Khawaja Waheed Raza Mr. Jamal Nasim Mr. Muhammad Iqbal Hussain Mr Aamir Amin

The independent directors meet the criteria under clause 5.19.1(b) of the Code

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a broker of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred on the Board of directors during the year were filled up by the directors within 90 days.
5. The Company has prepared a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, over all corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO of the Company, other executive and non-executive directors, have been taken by the board.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. No directors' training programme was arranged during the year. However, the management is committed to arrange directors' training programme of at least half of its directors by 30 June 2018.

## Annual Report 2017

10. The board has approved the appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the board.
13. The Directors, CEO and Executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of certificate holding.
14. Except for those which have been specifically mentioned in this statement, the Modaraba has complied with all the corporate and financial reporting requirements of the Code.
15. The board has formed an audit committee. It comprises of four members all of whom are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed a Human Resource and Remuneration committee. It comprises of three members. All of them are non-executive directors including the Chairman of the committee.
18. The board has set up an effective internal audit function which is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Modaraba.
19. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on the Code of Ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of the Modaraba's securities, was determined and intimated to directors, employees and stock exchange.
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.
23. The Modaraba has complied with the requirements relating to maintenance of register of persons having access to inside information by designated senior management officer in a timely manner and maintained proper record including basis for inclusion or exclusion of names of persons from the said list.
24. We confirm that all other material principles enshrined in the Code have been complied with except for the following, toward which reasonable progress is being made to seek compliance by June 30, 2018.
  - a. Chief Financial Officer (CFO) of the Modaraba does not meet the qualification criteria as required by the clause 5.19.9(a) of the Code. CFO is CA finalist having over eight years' experience in the Modaraba at senior posts. Moreover, subsequent to the year end, he has confirmed that in order to obtain the required qualification, he has applied for exemptions and will submit the credentials as soon as issued by the respective institutions.
  - b. Annual evaluation of the Board of Directors' own performance is not carried out during the year ended 30 June 2017. However, the Board has intention to comply with this requirement.



Chief Executive Officer



Director

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## First National Bank Modaraba

**Riaz Ahmad & Company**  
Chartered Accountants

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F: +92 (42) 3571 81 36  
riaz@riazahmad.com  
www.riazahmad.com

### REVIEW REPORT TO THE CERTIFICATE HOLDERS ON STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of **National Bank Modaraba Management Company Limited** ("the Management Company") in respect of **First National Bank Modaraba** ("the Modaraba") for the year ended 30 June 2017 to comply the Code contained in the Regulations of Pakistan Stock Exchange Limited, where the Modaraba is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the statement of compliance reflects the status of the Management Company's compliance with the provisions of the Code and report if it does not and to highlight any non compliance with the requirements of the code. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

The Code requires the Management Company to place before the audit committee, and upon recommendation of the audit committee, place before the Board of Directors for their review and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors upon the recommendation of the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Management Company for the year ended 30 June 2017.



**Riaz Ahmad & Company**  
Chartered Accountants

Further, we highlight below instances of non-compliance with the requirements of the Code as reflected in the paragraph 24 in the Statement of Compliance:

- (i) Annual evaluation of the Board of Directors' own performance is not carried out during the year ended 30 June 2017.
- (ii) Chief Financial Officer of the Modaraba does not meet the qualification criteria given in clause 5.19.9(a) of the Code.

*Riaz Ahmad*

**RIAZ AHMAD & COMPANY**  
Chartered Accountants

**Name of engagement partner:**  
**Syed Mustafa Ali**

**Date: October 05, 2017**

**LAHORE**

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## First National Bank Modaraba

**Riaz Ahmad & Company**  
Chartered Accountants

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### AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of **FIRST NATIONAL BANK MODARABA** ("the Modaraba") as at 30 June 2017 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the modaraba company's (National Bank Modaraba Management Company Limited) responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by the modaraba company, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) In our opinion, proper books of accounts have been kept by the modaraba company in respect of the Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;
- (b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in agreement with accounting policies consistently applied except for change as stated in note 2.1(b) to the financial statements with which we concur;
  - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and



## Annual Report 2017

**Riaz Ahmad & Company**

Chartered Accountants

- (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981 in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at 30 June 2017 and of the loss, its comprehensive loss, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention to note 1.1 to the financial statements, which states that the Modaraba is no longer a going concern, therefore, these financial statements have been prepared on the basis of estimated realisable / settlement values of assets and liabilities respectively. This resulted in recognition of additional provision of Rupees 39.074 million based on the subjective evaluation of non-performing receivables. Estimated realisable / settlement values are based on the management's best estimate. Estimation involves judgements based on the latest available, reliable information, historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In future, these estimates may need revision if changes occur in the circumstances on which the estimates are based or as a result of new information. Hence, the ultimate values at which assets will be realized and liabilities will be settled may be different from those carried in these financial statements. Our report is not qualified in respect of this matter.



**RIAZ AHMAD & COMPANY**  
Chartered Accountants

**Name of engagement partner:**  
**Syed Mustafa Ali**

**Date: October 05, 2017**

**LAHORE**

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# First National Bank Modaraba

## BALANCE SHEET AS AT JUNE 30, 2017

	NOTE	2017 Rupees	2016 Rupees
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Bank balances	3	49,707,521	14,743,528
Short term murabaha investments - secured	4	19,216,842	98,334,293
Accrued profit	5	388,493	487,183
Ijarah rentals receivable	6	69,947,032	81,817,794
Advances, prepayments and other receivables	7	3,843,324	2,604,790
Current portion of non-current assets	8	103,049,027	94,413,807
		246,152,239	292,401,395
<b>NON-CURRENT ASSETS</b>			
Net investment in ijarah finance	9	1,651,514	9,442,934
Diminishing musharaka financing - secured	10	10,497,347	35,303,315
Long term murabaha investments - secured	11	1,725,105	36,149,675
Long term loans and deposits	12	1,000,882	1,723,444
Intangible asset	13	-	-
Ijarah assets	14	247,443,653	466,193,676
Fixed assets - own use	15	7,732	91,831
Deferred income tax	30	-	-
		262,326,233	548,904,875
<b>TOTAL ASSETS</b>		<b>508,478,472</b>	<b>841,306,270</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accrued profit		2,094,045	6,438,136
Deferred murabaha income	4	2,654,776	3,255,776
Short term finances - secured	16	201,634,754	274,918,586
Creditors, accrued and other liabilities	17	27,265,399	23,696,977
Current portion of non-current liabilities	18	195,897,100	295,738,705
		429,546,074	604,048,180
<b>NON-CURRENT LIABILITIES</b>			
Security deposits against ijarah assets	19	21,500,787	71,620,702
Long term finances - secured	20	16,666,670	50,000,000
Deferred murabaha income	21	24,431,871	27,944,636
		62,599,328	149,565,338
<b>TOTAL LIABILITIES</b>		<b>492,145,402</b>	<b>753,613,518</b>
<b>NET ASSETS</b>		<b>16,333,070</b>	<b>87,692,752</b>
<b>FINANCED BY</b>			
Certificate capital	22	250,000,000	250,000,000
Reserves	23	(233,666,930)	(162,307,248)
<b>TOTAL EQUITY AND RESERVES</b>		<b>16,333,070</b>	<b>87,692,752</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
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The annexed notes form an integral part of these financial statements.

Lahore: October 05, 2017

  
Chief Executive Officer  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited



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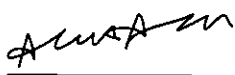
# Annual Report 2017

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2017


	NOTE	2017 Rupees	2016 Rupees
<b>INCOME</b>			
Ijarah rentals earned / income from ijarah finance		169,679,959	305,749,520
Profit on diminishing musharaka financing		4,269,226	3,804,355
Profit on murabaha investments		255,086	1,979,454
Profit on bank deposits		974,792	1,002,006
Gain on disposal of ijarah assets		4,525,381	-
Other income	25	97,018	1,833,589
		<u>179,801,462</u>	<u>314,368,924</u>
<b>EXPENSES</b>			
Depreciation on ijarah assets	14	(124,356,047)	(237,061,840)
Loss on disposal of ijarah assets		-	(3,939,655)
Operating expenses	26	(15,175,035)	(16,130,081)
Finance cost	27	(23,700,399)	(44,916,618)
		<u>(163,231,481)</u>	<u>(302,048,194)</u>
<b>Operating profit before provision and taxation</b>		<b>16,569,981</b>	<b>12,320,730</b>
Provision charged for doubtful receivables - net	28	(86,033,497)	(61,179,143)
Impairment loss on ijarah assets - net	14	(1,896,166)	(4,974,089)
		<u>(71,359,682)</u>	<u>(53,832,502)</u>
Modaraba management company fee	29	-	-
<b>LOSS BEFORE TAXATION</b>		<b>(71,359,682)</b>	<b>(53,832,502)</b>
Taxation	30	-	-
<b>LOSS AFTER TAXATION</b>		<b>(71,359,682)</b>	<b>(53,832,502)</b>
<b>LOSS PER CERTIFICATE - BASIC AND DILUTED</b>	31	<b>(2.85)</b>	<b>(2.15)</b>

The annexed notes form an integral part of these financial statements.

Lahore: October 05, 2017

  
Chief Executive Officer  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited


  
Director  
National Bank Modaraba  
Management Company Limited

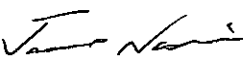
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED JUNE 30, 2017

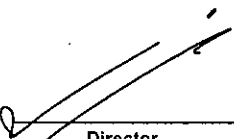
	2017 Rupees	2016 Rupees
LOSS AFTER TAXATION	(71,359,682)	(53,832,502)
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(71,359,682)</u>	<u>(53,832,502)</u>

The annexed notes form an integral part of these financial statements.

Lahore: October 05, 2017

  
Chief Executive Officer  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

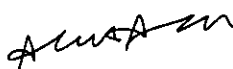
## Annual Report 2017


# CASH FLOW STATEMENT

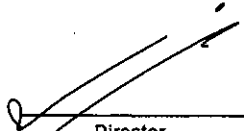
## FOR THE YEAR ENDED JUNE 30, 2017

	NOTE	2017 Rupees	2016 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(71,359,682)	(53,832,502)
<b>Adjustments for non cash charges and other items:</b>			
Depreciation and amortization		124,440,146	237,446,781
Provision charged for doubtful receivables - net		86,033,497	61,179,143
Gain on disposal of fixed assets - own use		-	(1,503,510)
Impairment loss on ijarah assets		1,896,166	4,974,089
Loss / (gain) on disposal of ijarah assets		(4,525,381)	3,939,655
Finance cost		23,700,399	44,916,618
Profit on bank deposits		(974,792)	(1,002,006)
<b>Working capital changes</b>		<b>230,570,035</b>	<b>349,950,770</b>
<b>(Increase) / decrease in assets</b>			
Accrued profit		98,690	2,897,880
Ijarah rentals receivable		5,129,329	(24,522,278)
Advances, prepayments and other receivables		(982,823)	21,891,975
Short term murabaha investments		28,100,003	37,789,339
Net investment in ijarah finance		601,181	4,140,000
Diminishing musharaka financing		20,074,614	(29,524,167)
Long term murabaha investments		9,389,069	12,613,331
<b>(Decrease) / increase in liabilities</b>			
Short term certificates of musharaka - net		-	(295,597,365)
Creditors, accrued and other liabilities		3,569,862	3,143,629
Security deposits against ijarah assets - net		(85,140,949)	4,083,500
		(19,161,024)	(263,084,156)
<b>Cash generated from operations</b>		<b>140,049,329</b>	<b>33,034,112</b>
Finance cost paid		(28,044,489)	(55,863,620)
Income taxes paid		(1,131,327)	(458,203)
Profit received on bank deposits		974,792	1,238,160
Long term loans and deposits - net		1,044,436	3,633,852
<b>Net cash generated from / (used in) operating activities</b>		<b>112,892,741</b>	<b>(18,415,699)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Ijarah assets acquired		-	(76,361,058)
Fixed assets - own use acquired		-	(10,200)
Proceeds from disposal of fixed assets - own use		-	1,550,312
Proceeds from disposal of ijarah assets		97,023,191	28,830,312
<b>Net cash from / (used in) investing activities</b>		<b>97,023,191</b>	<b>(45,990,634)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Short term finances - net		(73,283,832)	140,233,407
Profit paid to certificate holders		(1,440)	(246,420)
Long term finances - obtained		-	100,000,000
Long term finances - repaid		(101,666,667)	(250,324,974)
<b>Net cash used in financing activities</b>		<b>(174,951,939)</b>	<b>(10,337,987)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>34,963,993</b>	<b>(74,744,320)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>14,743,528</b>	<b>89,487,848</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>3</b>	<b>49,707,521</b>	<b>14,743,528</b>

The annexed notes form an integral part of these financial statements.

  
**Chief Executive Officer**  
National Bank Modaraba  
Management Company Limited

  
**Director**  
National Bank Modaraba  
Management Company Limited

  
**Director**  
National Bank Modaraba  
Management Company Limited

Lahore: October 05, 2017

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED JUNE 30, 2017

CERTIFICATE CAPITAL	RESERVES			TOTAL	TOTAL EQUITY
	CAPITAL	REVENUE			
	STATUTORY RESERVE	ACCUMULATED LOSS			
Rupees.....					
Balance as at 30 June 2015	250,000,000	43,955,189	(152,429,935)	(108,474,746)	141,525,254
Loss for the year ended 30 June 2016	-	-	(53,832,502)	(53,832,502)	(53,832,502)
Other comprehensive income for the year ended 30 June 2016	-	-	-	-	-
Total comprehensive loss for the year ended 30 June 2016	-	-	(53,832,502)	(53,832,502)	(53,832,502)
Balance as at 30 June 2016	250,000,000	43,955,189	(206,262,437)	(162,307,248)	87,692,752
Loss for the year ended 30 June 2017	-	-	(71,359,682)	(71,359,682)	(71,359,682)
Other comprehensive income for the year ended 30 June 2017	-	-	-	-	-
Total comprehensive loss for the year ended 30 June 2017	-	-	(71,359,682)	(71,359,682)	(71,359,682)
Balance as at 30 June 2017	250,000,000	43,955,189	(277,622,119)	(233,666,930)	16,333,070

The annexed notes form an integral part of these financial statements.

Lahore: October 05, 2017

  
Chief Executive Officer  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

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## Annual Report 2017

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

#### 1 LEGAL STATUS AND NATURE OF BUSINESS

First National Bank Modaraba ("the Modaraba") is a multi-purpose, perpetual and multi-dimensional Modaraba formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Rules framed thereunder. The Modaraba is managed by National Bank Modaraba Management Company Limited (a wholly owned subsidiary of National Bank of Pakistan), incorporated in Pakistan under the Companies Ordinance, 1984 (Now Companies Act, 2017) and registered with the Registrar of Modaraba Companies. The registered office of the Modaraba is situated at Ground Floor, National Bank of Pakistan, Regional Headquarters Building, 26-Mc Lagon Road, Lahore.

The Modaraba is listed on Pakistan Stock Exchange Limited. It commenced its operations on 04 December 2003 and is currently engaged in various Islamic modes of financing and operations including ijarah, musharaka and murabaha arrangements.

##### 1.1 Going concern assumption

During the year, the Modaraba made an operating profit of Rupees 16.569 million, however, due to provision and impairment charged against classified assets, the Modaraba incurred loss after taxation of Rupees 71.359 million taking the accumulated loss to Rupees 277.622 million which exceeds the total amount subscribed by the holders of modaraba certificates. This may attract the provisions of section 23 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. As on the reporting date, the Modaraba's accumulated loss net of statutory reserve is amounting to Rupees 233.666 million and its current liabilities exceeded its current assets by Rupees 183.394 million. However, current liabilities include current portion of security deposits against ijarah facilities amounting to Rupees 155.082 million which will be adjusted against residual value of ijarah assets on maturity / termination of ijarah facilities.

On the recommendation of the board of directors of National Bank of Pakistan (parent bank of National Bank Modaraba Management Company), the board of directors of National Bank Modaraba Management Company resolved in its meeting held on 21 April 2017 to explore various appropriate options for cessation of operations of the Modaraba, which may include, but not necessarily be limited to, winding up of the Modaraba in accordance with the prevailing laws or merger of the Modaraba.

These factors have raised uncertainties that the Modaraba may not be able to continue as a going concern. Therefore, these financial statements have been prepared on the basis of estimated realisable / settlement values of assets and liabilities respectively.

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated:

First National Bank Modaraba

2.1 BASIS OF PREPARATION

a) Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the repealed Companies Ordinance, 1984, Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan, the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Modaraba Companies and Modaraba Rules, 1981 and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Islamic Financial Accounting Standards (IFAS), the Modaraba Companies and Modaraba Rules, 1981 and directives issued by SECP differ with the requirements of IFRS, the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Islamic Financial Accounting Standards (IFAS), the Modaraba Companies and Modaraba Rules, 1981 or the directives issued by SECP shall prevail.

b) Accounting convention

These financial statements have been prepared using the non-going concern basis of accounting on the basis of estimated realizable / settlement values of the assets and liabilities respectively. In realizable / settlement value basis, assets are carried at amount of cash and cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are carried at their settlement values, that is the undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business. Previously, these financial statements were prepared under the historical cost convention, except for certain financial instruments which were carried at their fair value.. Had there been no change in this accounting policy, the amounts recognized in the financial statements would have been different as follows:

	2017 Rupees
<b>Impact on balance sheet</b>	
Ijarah rentals receivable would have been higher by Rupees	3,100,000
Long term murabaha investments would have been higher by Rupees	17,500,000
Short term murabaha investments would have been higher by Rupees	18,473,740
<b>Impact on profit and loss account</b>	
Loss before taxation would have been lower by Rupees	39,073,740
<b>Loss per certificate would have been lower by Rupees</b>	1.56

c) Use of Estimate and Judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Modarabas accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and measurement estimates are significant to the Modarabas financial statements or where judgments were exercised in application of accounting policies are as follows:

## Annual Report 2017

### Ijarah assets and fixed assets in own use

The Modaraba reviews the useful lives of ijarah assets and fixed assets in own use on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of fixed assets with a corresponding effect on the depreciation charge and impairment, if any.

### Ijarah rentals, diminishing musharaka financing and murabaha investments

Ijarah rentals, diminishing musharaka financing and murabaha investments are stated net of provision against doubtful receivables. Provision is recognized for ijarah rentals receivable, diminishing musharaka financing and murabaha investment in accordance with the Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan (SECP) and on subjective evaluation by the management. Bad debts are written-off when identified.

### Estimated realizable / settlement values of assets and liabilities respectively

Based on the management's best estimate, as on the reporting date, carrying values of assets and liabilities reflect estimated realizable / settlement values respectively. During the year ended 30 June 2017, the Modaraba has recognized provision for doubtful short term murabaha investments of Rupees 18,474 million (Note 4.3), provision for ijarah rental receivables of Rupees 3,100 million (Note 6.2.1) and provision for long term murabaha investments of Rupees 17,500 million (Note 11.2.1 ) on the basis of subjective evaluation of non-performing receivables / assets after considering the current situation, that the Modaraba may not be able to continue as a going concern. These provisions are made in addition to the time based criteria given in the regulation of classification and provisioning for non-performing assets in Prudential Regulations for Modarabas.

As per Circular No. 03 of 2017 guideline on the basis of preparation of financial statements that are not considered going concern issued by the Institute of Chartered Accountants of Pakistan, analysis of the upside not recognized in the profit and loss account of the Modaraba on assets is disclosed in Note 4.4, Note 6.1, Note 7.1.1 Note 9.1 and Note 15.2 in these financial statements. Cumulative effect of upside not recognized in the profit and loss account of the Modaraba for the year ended 30 June 2017 is amounting to Rupees 50,120 million.

The Modaraba has no items that it plans to sell that the Modaraba has not previously recognized in these financial statements.

### d) Amendments to published approved accounting standards that are effective in current year and are relevant to the Modaraba

The following standard is mandatory for the Modarabas accounting periods beginning on or after 01 July 2016:

IAS 16 (Amendments) Property, Plant and Equipment (effective for annual periods beginning on or after 01 January 2016). The amendments clarify that a depreciation method which is based on revenue, generated by an activity by using of an asset is not appropriate for property, plant and equipment; and add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

## First National Bank Modaraba

IAS 1 (Amendments) 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 January 2016). Amendments have been made to address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes: clarification that information should not be obscured by aggregating or by providing immaterial information, materiality consideration apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality consideration do apply; clarification that the list of the line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in IAS 1.

IAS 34 (Amendments) 'Interim Financial Reporting' (effective for annual periods beginning on or after 01 January 2016). This amendment clarifies what is meant by the reference in the standard to „information disclosed elsewhere in the interim financial report. The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information.

The application of the above amendments does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

**e) Amendments to published approved accounting standards that are effective in current year but not relevant to the Modaraba**

There are other amendments to published approved accounting standards that are mandatory for accounting periods beginning on or after 01 July 2016 but are considered not to be relevant or do not have any significant impact on the Modarabas financial statements and are therefore not detailed in these financial statements.

**f) Standards, interpretations and amendments to published approved accounting standards that are not yet effective but relevant to the Modaraba**

Following standards, interpretations and amendments to existing standards have been published and are mandatory for the Modarabas accounting periods beginning on or after 01 July 2017 or later periods:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2018). A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a fair value through other comprehensive income category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. The 2014 version of IFRS 9 introduces an expected credit loss model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized. It introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39. The management of the Modaraba is in the process of evaluating the impacts of the aforesaid standard on the Modarabas financial statements.



## Annual Report 2017

IFRS 15 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 01 January 2018). IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are: identify the contract with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contracts; and recognize revenue when (or as) the entity satisfies a performance obligation. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue-Barter Transactions Involving Advertising Services. The aforesaid standard is not expected to have a material impact on the Modarabas financial statements.

IFRS 16 'Lease' (effective for annual periods beginning on or after 01 January 2019). IFRS 16 specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16 approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The management of the Modaraba is in the process of evaluating the impacts of the aforesaid standard on the Modarabas financial statements.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 01 January 2018). IFRIC 22 clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The interpretation is not expected to have a material impact on the Modarabas financial statements.

IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 01 January 2019). The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 Income Taxes. It specifically considers: whether tax treatments should be considered collectively; assumptions for taxation authorities' examinations; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances. The interpretation is not expected to have a material impact on the Modarabas financial statements.

IFRS 15 (Amendments), 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 01 January 2018). Amendments clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. The aforesaid amendments are not expected to have a material impact on the Modarabas financial statements.

**First National Bank Modaraba**

IAS 7 (Amendments), Statement of Cash Flows (effective for annual periods beginning on or after 01 January 2017). Amendments have been made to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The aforesaid amendments will result in certain additional disclosures in the Modarabas financial statements.

IAS 12 (Amendments), 'Income Taxes' (effective for annual periods beginning on or after 01 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are not likely to have significant impact on Modarabas financial statements.

**g) Standards and amendments to approved published standards that are not yet and not considered relevant to the Modaraba**

There are other standards and amendments to published standards that are mandatory for accounting periods beginning on or after 01 July 2017 but are considered not to be relevant or do not have any significant impact on the Modarabas financial statements and are therefore not detailed in these financial statements.

**2.2 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and balances with banks.

**2.3 Receivables**

Receivables are due on normal trade terms. These are carried at original invoice amount less provision for doubtful debts, if any. Balances considered bad and irrecoverable are written off when identified.

**2.4 Murabaha investments**

Murabaha investments are stated net of provision. Provision is recognized for Murabaha investments in accordance with the time based criteria of the Prudential Regulations for Modarabas issued by the SECP and subjective evaluation of management. Outstanding balances are written off when there is no realistic prospect of recovery.

Murabaha receivable are recorded by the Modaraba at the invoiced amount and disclosed as such in the balance sheet. Purchases and sales under murabaha and the resultant profit are accounted for on the culmination of murabaha transaction.

The profit on that portion of sales revenue not due for payment are deferred by accounting for a debit to "Unearned Murabaha Income" account with the corresponding credit to "Deferred Murabaha Income" account and shown in the balance sheet as a liability.

**2.5 Financial instruments**

Financial instruments carried on the balance sheet include long term loans and deposits, ijarah rentals receivable, net investment in ijarah finance, murabaha investments, diminishing musharaka financing, advances and other receivables, bank balances, short term finances, long term finances, accrued profit and creditors accrued and other liabilities. Financial assets and liabilities are recognized when the Modaraba becomes a party to the contractual provisions of instrument. Initial recognition is made at fair value plus transaction costs directly attributable to acquisition, except for "financial instrument at fair value through profit or loss" which is measured initially at fair value.

## Annual Report 2017

Financial assets are de-recognized when the Modaraba loses control of the contractual rights that comprise the financial asset. The Modaraba loses such control if it realizes the rights to benefits specified in contract, the rights expire or the Modaraba surrenders those rights. Financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on subsequent measurement (except available for sale investments) and de-recognition is charged to the profit or loss currently. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

### 2.6 Payables

Liabilities for other amounts payable are initially recognized at fair value, which is normally the transaction cost.

### 2.7 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Modaraba has legally enforceable right to set off the recognized amount and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### 2.8 Diminishing musharaka financing

Diminishing musharaka financing is stated net of provision. Provision is recognized in accordance with Prudential Regulations for Modarabas issued by the SECP or on the estimate of management, whichever is higher. Bad debts are written off when identified.

### 2.9 Lease (ijarah) accounting

The Modaraba provides assets to its clients under ijarah agreements as approved by the Religious Board. Ijarah arrangements up to 30 June 2008 have been recorded in the books of accounts as finance lease in line with IAS-17 (Leases) and arrangements beginning on or after 1 July 2008 have been recorded in the books of accounts under IFAS-2 (Ijarah).

Under the ijarah arrangements up to 30 June 2008, amount due from lessees under finance leases are recorded as receivables at the amount of the net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

As per the requirements of IFAS-2, the Modaraba has presented assets subject to ijarah in its balance sheet according to the nature of the asset, distinguished from the assets in own use. Income from ijarah is recognized on accrual basis, unless another systematic basis is more representative of the time pattern in which benefit of use derived from the leased asset is diminished. Costs, including depreciation, incurred in earning the ijarah income are recognized as an expense.

Net investment in ijarah is stated at present value of minimum ijarah payments. Impairment losses on non-performing ijarah are recognized at higher of provision required in accordance with the Prudential Regulations for Modarabas or at a level which in the judgment of the management is adequate to provide for potential ijarah losses. These losses can be reasonably anticipated as the difference between the carrying amount of receivables and present value of expected cash flows discounted at the rates implicit in the ijarah agreement.

### 2.10 Fixed assets

#### Assets given to customers under ijarah arrangements

Assets given to customers under ijarah arrangements on or after 01 July 2008 are accounted for as operating lease and are stated at cost less accumulated depreciation and impairment loss, if any. Assets under ijarah arrangements are depreciated using the straight line basis over the shorter of ijarah term or assets useful life. In respect of additions and transfer during the year, depreciation is charged proportionately to the period of ijarah.

## First National Bank Modaraba

### Assets in own use - Tangible

Tangible fixed assets are stated at cost less accumulated depreciation and impairment loss, if any. Cost in relation to the assets comprises acquisition and other directly attributable costs. Subsequent costs are included in assets' carrying amounts when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. Carrying amount of parts so replaced, if any, is derecognized. All other repairs and maintenance are charged to income as and when incurred. Gain / loss on disposals are carried to the profit and loss account in the year of disposal.

Depreciation is charged to income using the straight line method at the rates as specified in note 15 to these financial statements so as to write off the cost of assets over their estimated useful lives without taking into account any residual value. Depreciation on additions to the tangible fixed assets is charged from the month in which an asset is available for use while no depreciation is charged for the month in which the asset is disposed off.

Carrying amounts of the Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated and impairment loss is recognized in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the initial cost of the asset. A reversal of the impairment loss is recognized as income in the profit and loss account.

### Assets in own use - Intangible

Expenditure incurred on intangible asset is capitalized and stated at cost less accumulated amortization and any identified impairment loss. Intangible asset is amortized on straight line basis over a period of three years.

### 2.11 Provisions

Provisions are recognized when the Modaraba has a present, legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Future operating losses are not provided for.

### 2.12 Revenue recognition

For lease (ijarah) agreements executed on or before 30 June 2008, the unearned finance income is deferred and amortized to income over the term of ijarah, applying the annuity method to produce a constant rate of return on net investment in ijarah. Unrealized ijarah income on potential lease losses is excluded from the income from ijarah operations in accordance with the requirements of the Prudential Regulations for Modaraba issued by the SECP.

For lease (ijarah) agreements executed on or after 01 July 2008 lease rentals are recognized as income on accrual basis, as and when the rental becomes due over the ijarah period.

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The deferred murabaha income i.e. the excess of aggregate murabaha instalments over the cost of the asset under murabaha investment is deferred and then amortized over the term of the murabaha, so as to produce a constant rate of return on murabaha investment. Documentation charges, front-end fee and other murabaha income are recognized as income on receipt basis.

Return on deposits with banks is recognized on time proportionate basis.

Profit on diminishing musharaka financing is recognized under the effective mark-up rate method based on the amount outstanding.

Income from fee and commission is recognized as and when it becomes due.

### 2.13 Borrowing costs

Borrowing costs on long-term finances are capitalized up to the date of commissioning of respective qualifying assets acquired out of the proceeds of such long-term finances. All other borrowing costs are recognized in profit and loss account.

### 2.14 Taxation

#### Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits available, rebates and exemptions, if any. Under clause 100 of Part – I of Second Schedule to the Income Tax Ordinance 2001, the income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are distributed to the certificate holders.

#### Deferred

Deferred tax is provided, using the balance sheet method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilized.

### 2.15 Profit distribution

Profit distribution to certificate holders is recognized as a liability in the period in which such distribution is announced.

### 2.16 Segment reporting

As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Managing Director has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

The Managing Director is responsible for the Modarabas entire product portfolio and considers the business to have a single operating segment. The Modarabas asset allocation decisions are based on a single integrated investment and the Modarabas performance is evaluated on overall basis.

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	2017 Rupees	2016 Rupees
<b>3 BANK BALANCES</b>		
Current accounts		
Associated undertaking - National Bank of Pakistan	270,647	750,329
Others	48,041	1,506,724
	<u>318,688</u>	<u>2,257,053</u>
Saving accounts (Note 3.1)		
Associated undertaking - National Bank of Pakistan	25,291	1,762,619
Others	49,363,542	10,723,856
	<u>49,388,833</u>	<u>12,486,475</u>
	<u>49,707,521</u>	<u>14,743,528</u>
3.1 These carry mark-up at the rate of 2.70% to 3.50% (2016: 3.50% to 6.50%) per annum.		
<b>4 SHORT TERM MURABAH INVESTMENTS - SECURED</b>		
Considered good	-	25,000,000
Considered doubtful (Note 4.4)	244,025,025	247,125,028
	<u>244,025,025</u>	<u>272,125,028</u>
Add: Deferred murabaha income	2,654,776	3,255,776
	<u>246,679,801</u>	<u>275,380,804</u>
Less: Provision for non-performing murabaha investments (Note 4.1)	(227,462,959)	(177,046,511)
	<u>19,216,842</u>	<u>98,334,293</u>
<b>4.1 Provision for non-performing murabaha investments</b>		
Opening balance	177,046,511	170,127,500
Charged during the year (Note 4.3)	50,416,448	43,027,951
Reversed during the year	-	(36,108,940)
Net charged during the year	<u>50,416,448</u>	<u>6,919,011</u>
Closing balance	<u>227,462,959</u>	<u>177,046,511</u>
4.2 These represent investments under murabaha arrangements on deferred payment basis at specified profit margins. These investments carry profit at the rate of 10.36% to 15.54% (2016: 9.61% to 15.54%) per annum and are secured against charge over fixed and current assets, personal guarantees of directors of customer companies, registered and equitable mortgage of properties, demand promissory notes and post dated cheques varying from case to case.		
4.3 This includes provision of Rupees 18.474 million (2016: Rupees Nil) recognized during the year on the basis of subjective evaluation of non-performing short term murabaha investments.		
4.4 This includes doubtful short term murabaha investments of Rupees 16.562 million whose realizable value estimated by the management as on the reporting date is Rupees 23.546 million. Hence, there is an upside of Rupees 6.984 million not recognized in the profit and loss account of the Modaraba.		
	2017 Rupees	2016 Rupees
<b>5 ACCRUED PROFIT</b>		
Murabaha investments	-	345,915
Diminishing musharaka financing	388,493	141,268
	<u>388,493</u>	<u>487,183</u>

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	2017 Rupees	2016 Rupees
<b>6 IJARAH RENTALS RECEIVABLE</b>		
Considered good - secured	12,028,297	24,220,234
Considered doubtful (Note 6.1)	99,593,682	88,327,883
Less: Provision for doubtful ijarah rentals receivable (Note 6.2)	(20,363,489)	(13,622,056)
Less: Profit held in suspense (Note 6.3)	(21,311,458)	(17,108,267)
	<u>57,918,735</u>	<u>57,597,560</u>
	<u>69,947,032</u>	<u>81,817,794</u>
<b>6.1</b> This includes doubtful ijarah rentals receivable of Rupees 75.895 million whose realisable value estimated by the management as on the reporting date is Rupees 89.907 million. Hence, there is an upside of Rupees 14.012 million not recognized in the profit and loss account of the Modaraba.		
	2017 Rupees	2016 Rupees
<b>6.2 Provision for doubtful ijarah rentals receivable</b>		
Opening balance	13,622,056	12,633,222
Charged during the year (Note 6.2.1)	7,318,597	1,239,496
Reversed during the year	(577,164)	(250,662)
Closing balance	<u>20,363,489</u>	<u>13,622,056</u>
<b>6.2.1</b> This includes provision of Rupees 3.100 million (2016: Rupees Nil) recognized during the year on the basis of subjective evaluation of non-performing ijarah rentals receivable.		
	2017 Rupees	2016 Rupees
<b>6.3 Profit held in suspense</b>		
Opening balance	17,108,267	8,424,135
Income suspended during the year	7,207,092	8,684,132
Suspended income received	(3,003,901)	-
Closing balance	<u>21,311,458</u>	<u>17,108,267</u>
<b>7 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES</b>		
Advances to employees for expenses (unsecured - considered good)	12,530	21,491
Income tax deducted at source	2,299,126	1,167,799
Prepayments	27,880	249,157
Other receivables (Note 7.1)	1,503,788	1,166,343
	<u>3,843,324</u>	<u>2,604,790</u>
<b>7.1 Other receivables</b>		
Considered good	1,503,788	1,166,343
Considered doubtful (Note 7.1.1)	29,244,256	28,368,640
Provision against doubtful other receivables (Note 7.2)	(29,244,256)	(28,368,640)
	<u>1,503,788</u>	<u>1,166,343</u>
<b>7.1.1</b> Doubtful other receivables of Rupees 29.244 million have been fully provided in these financial statements, however, these include receivables of Rupees 1.816 million whose realizable value estimated by the management as on the reporting date is Rupees 0.487 million. Hence, there is an upside of Rupees 0.487 million not recognized in the profit and loss account of the Modaraba.		

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### 7.2 Provision against doubtful other receivables

Opening balance	28,368,640	24,988,256
Charged during the year	875,616	3,380,384
Closing balance	<u>29,244,256</u>	<u>28,368,640</u>

### 8 CURRENT PORTION OF NON-CURRENT ASSETS

Net investment in ijarah finance (Note 9)	31,270,867	24,080,628
Diminishing musharaka financing (Note 10)	26,098,927	21,367,573
Long term murabaha investments (Note 11.3)	45,083,734	48,048,233
Long term loans and deposits (Note 12)	595,499	917,373
	<u>103,049,027</u>	<u>94,413,807</u>

### 9 NET INVESTMENT IN IJARAH FINANCE

2017			2016		
Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total

-----Rupees-----

Minimum ijarah rentals receivable	62,161,137	17,185,554	79,346,691	54,929,071	29,185,554	84,114,625
Residual value of ijarah assets	<u>5,088,181</u>	<u>46,700</u>	<u>5,134,881</u>	<u>5,088,181</u>	<u>46,700</u>	<u>5,134,881</u>
Gross investment in ijarah finance	67,249,318	17,232,254	84,481,572	60,017,252	29,232,254	89,249,506
Less: Unearned finance income	<u>(13,071,599)</u>	<u>(15,580,740)</u>	<u>(28,652,339)</u>	<u>(13,029,772)</u>	<u>(19,789,320)</u>	<u>(32,819,092)</u>
Net investment in lease ijarah finance	54,177,719	1,651,514	55,829,233	46,987,480	9,442,934	56,430,414
Less: Provision for doubtful net investment in ijarah finance (Note 9.2)	<u>(22,906,852)</u>	<u>-</u>	<u>(22,906,852)</u>	<u>(22,906,852)</u>	<u>-</u>	<u>(22,906,852)</u>
	<u>31,270,867</u>	<u>1,651,514</u>	<u>32,922,381</u>	<u>24,080,628</u>	<u>9,442,934</u>	<u>33,523,562</u>
Less: Current portion (Note 8)		<u>(31,270,867)</u>				<u>(24,080,628)</u>
		<u>1,651,514</u>				<u>9,442,934</u>

The Modaraba has entered into various ijarah agreement for periods ranging from 8 to 14 years (2016: 8 to 14 years). Security deposits ranging from 0.1% to 10% (2016: 0.1% to 10%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.76% to 11.97% (2016: 7.86% to 11.19%) per annum.

- 9.1 This includes doubtful ijarah rentals receivable of Rupees 27.788 million whose realizable value estimated by the management as on the reporting date is Rupees 55.575 million. Hence, there is an upside against net investment in ijarah finance and unearned finance income estimated to Rupees 22.907 million and Rupees 4.880 million respectively, which is not recognized in the profit and loss account of the Modaraba.



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	2017 Rupees	2016 Rupees
<b>9.2 Provision for doubtful net investment in ijarah finance</b>		
Opening balance	22,906,852	5,658,000
Charged during the year	-	17,248,852
Closing balance	<u>22,906,852</u>	<u>22,906,852</u>
<b>10 DIMINISHING MUSHARAKA FINANCING - SECURED</b>		
Considered good	32,258,640	52,007,931
Considered doubtful	<u>4,337,634</u>	<u>4,662,957</u>
Provision against doubtful diminishing musharaka (Note 10.2)	<u>-</u>	<u>-</u>
	<u>4,337,634</u>	<u>4,662,957</u>
	36,596,274	56,670,888
Less: Current portion (Note 8)	<u>(26,098,927)</u>	<u>(21,367,573)</u>
	<u>10,497,347</u>	<u>35,303,315</u>
<b>10.1</b>	This represents diminishing musharaka financing arrangement entered for a term of three to four years. The Modaraba has provided financing to the extent of 23.69% to 90% of the value of the musharaka assets. This financing is secured by first charge on all present and future fixed assets of the client, personal guarantee of directors, registered and equitable mortgage on properties, post dated cheques and joint ownership of musharaka assets. These carry profit at rates ranging between 9.35% to 14.02% (2016: 9.35% to 13.65%) per annum and are repayable on monthly basis.	
<b>10.2</b>	The provision against doubtful diminishing musharaka financing is not required under Prudential Regulations for Modarabas due to forced sale value of collaterally held assets.	
	2017 Rupees	2016 Rupees
<b>11 LONG TERM MURABAHA INVESTMENTS - SECURED</b>		
Considered good	14,895,252	24,284,321
Considered doubtful	<u>69,602,515</u>	<u>69,602,515</u>
	84,497,767	93,886,836
Add: Deferred murabaha income (Note 21)	<u>31,913,554</u>	<u>31,913,554</u>
	116,411,321	125,800,390
Less: Provision for doubtful murabaha investments (Note 11.2)	<u>(69,602,482)</u>	<u>(41,602,482)</u>
	46,808,839	84,197,908
Less: Current portion (Note 11.3)	<u>(45,083,734)</u>	<u>(48,048,233)</u>
	<u>1,725,105</u>	<u>36,149,675</u>
<b>11.1</b>	These represent investments under murabaha arrangements on deferred payment basis at a profit margin ranging from 9.38% to 15.50% (2016: 9.38% to 15.50%) per annum. These investments are secured against charge over fixed and current assets, registered and equitable mortgage of properties, personal guarantees of the directors of customer companies, demand promissory notes and post-dated cheques varying from case to case.	

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	2017 Rupees	2016 Rupees
<b>11.2 Provision for doubtful murabaha investments</b>		
Opening balance	41,602,482	8,960,420
Charged during the year (Note 11.2.1)	28,000,000	32,736,682
Reversed during the year	-	(94,620)
Net charged during the year	28,000,000	32,642,062
Closing balance	69,602,482	41,602,482
<b>11.2.1</b> This includes provision of Rupees 17.500 million (2016: Rupees Nil) recognized during the year on the basis of subjective evaluation of non-performing long term murabaha investments.		
<b>11.3 Current portion of long term murabaha investments</b>		
Murabaha investments	37,602,051	44,079,315
Deferred murabaha income (Note 21)	7,481,683	3,968,918
	45,083,734	48,048,233
<b>12 LONG TERM LOANS AND DEPOSITS</b>		
Long term loans to employees (Note 12.1)	1,556,881	2,601,317
Security deposits	39,500	39,500
	1,596,381	2,640,817
Less: Current portion (Note 8)	(595,499)	(917,373)
	1,000,882	1,723,444
<b>12.1</b> These loans are given to employees of the Modaraba for purchase of vehicles and carry profit at the rate of 5% (2016: 5%) per annum. Maximum aggregate balance due from employees at the end of any month during the year was Rupees 2,513,652 (2016: Rupees 6,098,247). As a security, vehicles are registered in the name of the Modaraba.		
<b>13 INTANGIBLE ASSET</b>		
Cost	1,131,300	1,131,300
Accumulated amortization	(1,131,300)	(1,131,300)
Net book value	-	-
<b>13.1</b> As at reporting date, the intangible asset is fully amortized but still in use of the Modaraba.		

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## 14 IJARAH ASSETS

	Plant and machinery	Vehicles	Total
	Rupees		
<b>At 30 June 2015</b>			
Cost	646,151,210	842,240,781	1,488,391,991
Accumulated depreciation	(373,524,792)	(405,836,916)	(779,361,708)
Net book value	272,626,418	436,403,865	709,030,283
<b>Year ended 30 June 2016</b>			
Opening net book value	272,626,418	436,403,865	709,030,283
Additions	-	76,361,058	76,361,058
Disposals:			
Cost	(130,723,700)	(188,181,400)	(318,905,100)
Accumulated depreciation	116,303,933	125,439,431	241,743,364
	(14,419,767)	(62,741,969)	(77,161,736)
Reclassification adjustment:			
Cost	73,500,000	(73,500,000)	-
Accumulated depreciation	(49,739,417)	49,739,417	-
	23,760,583	(23,760,583)	
Impairment loss	(1,502,302)	(3,471,787)	(4,974,089)
Depreciation charge	(103,743,825)	(133,318,015)	(237,061,840)
Closing net book value	176,721,107	289,472,569	466,193,676
<b>At 30 June 2016</b>			
Cost	588,927,510	656,920,439	1,245,847,949
Accumulated depreciation	(410,704,101)	(363,976,083)	(774,680,184)
Accumulated impairment loss	(1,502,302)	(3,471,787)	(4,974,089)
Net book value	176,721,107	289,472,569	466,193,676
<b>Year ended 30 June 2017</b>			
Opening net book value	176,721,107	289,472,569	466,193,676
Disposals:			
Cost	(178,983,837)	(202,495,620)	(381,479,457)
Accumulated depreciation	137,970,210	151,011,437	288,981,647
	(41,013,627)	(51,484,183)	(92,497,810)
Impairment loss:			
Impairment loss recognized	(3,203,211)	-	(3,203,211)
Impairment loss reversed	-	1,307,045	1,307,045
	(3,203,211)	1,307,045	(1,896,166)
Depreciation charge	(53,618,261)	(70,737,786)	(124,356,047)
Closing net book value	78,886,008	168,557,645	247,443,653
<b>At 30 June 2017</b>			
Cost	409,943,673	454,424,819	864,368,492
Accumulated depreciation	(326,352,152)	(283,702,432)	(610,054,584)
Accumulated impairment loss	(4,705,513)	(2,164,742)	(6,870,255)
Net book value	78,886,008	168,557,645	247,443,653
<b>Annual rate of depreciation (%)</b>	17 - 33	14 - 50	

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15 FIXED ASSETS - OWN USE

	Vehicles	Computers and accessories	Electric equipment	Total
<b>At 30 June 2015</b>				
	----- Rupees -----			
Cost	3,287,905	1,793,858	434,664	5,516,427
Accumulated depreciation	(3,192,231)	(1,538,451)	(418,387)	(5,149,069)
Net book value	95,674	255,407	16,277	367,358
<b>Year ended 30 June 2016</b>				
Opening net book value	95,674	255,407	16,277	367,358
Additions	-	10,200	-	10,200
Disposals:				
Cost	(1,936,723)	-	-	(1,936,723)
Accumulated depreciation	1,889,921	-	-	1,889,921
	(46,802)	-	-	(46,802)
Depreciation charge	(40,652)	(183,693)	(14,580)	(238,925)
Closing net book value	8,220	81,914	1,697	91,831
<b>At 30 June 2016</b>				
Cost	1,351,182	1,804,058	434,664	3,589,904
Accumulated depreciation	(1,342,962)	(1,722,144)	(432,967)	(3,498,073)
Net book value	8,220	81,914	1,697	91,831
<b>Year ended 30 June 2017</b>				
Opening net book value	8,220	81,914	1,697	91,831
Depreciation charge	(8,220)	(74,182)	(1,697)	(84,099)
Closing net book value	-	7,732	-	7,732
<b>At 30 June 2017</b>				
Cost	1,351,182	1,804,058	434,664	3,589,904
Accumulated depreciation	(1,351,182)	(1,796,326)	(434,664)	(3,582,172)
Net book value	-	7,732	-	7,732
<b>Annual rate of depreciation (%)</b>	20	33.33	20-33.33	

- 15.1 The cost of fixed assets includes fully depreciated assets of Rupees 3,241,823 (2016: Rupees 2,668,758) which are still in use of the Modaraba.
- 15.2 Upside against fixed asset in own use estimated by the management as on the reporting date is Rupees 0.850 million.

16 SHORT TERM FINANCE - SECURED

	2017 Rupees	2016 Rupees
<b>From banking companies</b>		
<b>Running finance:</b>		
Associated undertaking - National Bank of Pakistan (Note 16.1)	201,634,754	249,918,586
Murabaha finance (Note 16.2)	-	25,000,000
	201,634,754	274,918,586

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16.1 The Modaraba has total working capital finance facility of Rupees 250 million (2016: Rupees 350 million) available from National Bank of Pakistan out of which Rupees 48.365 million (2016: Rupees 75 million) remained unutilized at year end. This carry mark-up / profit at rate for 1 month KIBOR plus 1% (2016: 1 month to 6 months KIBOR plus 0.5% to 2%) per annum payable monthly. The effective mark-up / profit rate charged during the year range from 6.22% to 6.29% (2016: 7.26% to 9.83%) per annum. This facility is secured by way of first joint pari passu hypothecation charge on all present and future receivables, leased assets and related lease receivables and present and future assets of the Modaraba to the extent of Rupees 277.778 million (2016: Rupees 611.778 million).

16.2 This facility of Rupees 100 million obtained from Al-Baraka Bank (Pakistan) Limited to finance murabaha operations of the Modaraba has been fully repaid during the year. This carried mark-up at the rate of 6 months KIBOR plus 2% per annum payable semi annually. The effective mark-up rate charged during the year ranged from 8.36% to 8.37% (2016: 8.36% to 9.83%) per annum. This was secured by way of joint pari passu charge on leased assets and receivables of the Modaraba to the extent of Rupees 334 million.

	2017 Rupees	2016 Rupees
<b>17 CREDITORS, ACCRUED AND OTHER LIABILITIES</b>		
Advances from customers	25,725,887	22,503,209
Accrued expenses	433,780	559,000
Withholding tax payable	-	12,414
Unclaimed profit distribution	437,624	439,064
Charity and other payable	668,108	183,290
	<u>27,265,399</u>	<u>23,696,977</u>
<b>18 CURRENT PORTION OF NON-CURRENT LIABILITIES</b>		
Security deposits against ijarah assets (Note 19)	155,082,085	190,103,119
Long term finances - secured (Note 20)	33,333,332	101,666,668
Deferred murabaha income (Note 21)	7,481,683	3,968,918
	<u>195,897,100</u>	<u>295,738,705</u>
<b>19 SECURITY DEPOSITS AGAINST IJARAH ASSETS</b>		
Security deposits against ijarah assets	176,582,872	261,723,821
Less: Current portion (Note 18)	<u>(155,082,085)</u>	<u>(190,103,119)</u>
	<u>21,500,787</u>	<u>71,620,702</u>
<b>20 LONG TERM FINANCES - SECURED</b>		
<b>From banking companies and financial institution - secured</b>		
National Bank of Pakistan - associated undertaking (Note 20.1)	50,000,002	83,333,334
Pak China Investment Company Limited (Note 20.2)	-	35,000,000
First Women Bank Limited (Note 20.3)	-	33,333,334
	<u>50,000,002</u>	<u>151,666,668</u>
Less: Current portion (Note 18)	<u>(33,333,332)</u>	<u>(101,666,668)</u>
	<u>16,666,670</u>	<u>50,000,000</u>

20.1 This demand finance facility of Rupees 200 million is obtained to finance operations of the Modaraba. This is repayable in 12 equal quarterly instalments. This carries mark-up at the rate of 3 months KIBOR plus 2.00% per annum payable quarterly. The effective mark-up rate charged during the year ranged from 7.54% to 7.85% (2016: 7.85% to 8.51%) per annum. This is secured by way of first joint pari passu hypothecation charge on all present and future leased assets and related lease receivables of the Modaraba to the extent of Rupees 222.222 million.

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- 20.2 This term finance facility of Rupees 200 million obtained to finance Ijarah operations of the Modaraba has been fully repaid during the year. This carried mark-up at the rate of 6 months KIBOR plus 1.75% per annum payable semi annually. The effective mark-up rate charged during the year was 7.99% (2016: ranged from 8.38% to 8.63%) per annum. This was secured by way of hypothecation charge on all present and future leased assets and other Islamic products receivable of the Modaraba with 25% margin.
- 20.3 This demand finance facility of Rupees 200 million obtained to finance operations of the Modaraba has been fully repaid during the year. This carried mark-up at the rate of 6 months KIBOR plus 1.75% per annum payable semi annually. The effective mark-up rate charged during the year was 7.81% (2016: ranged from 8.26% to 8.79%) per annum. This was secured by way of joint pari passu charge on leased assets and other Islamic products' receivable of the Modaraba to the extent of Rupees 367 million.

	2017 Rupees	2016 Rupees
<b>21 DEFERRED MURABAHA INCOME</b>		
Long term deferred murabaha income (Note 11)	31,913,554	31,913,554
Less: Current portion (Note 18)	(7,481,683)	(3,968,918)
	<u>24,431,871</u>	<u>27,944,636</u>
<b>22 CERTIFICATE CAPITAL</b>		
Authorised certificate capital		
60,000,000 (2016: 60,000,000) modaraba certificates of Rupees 10 each	<u>600,000,000</u>	<u>600,000,000</u>
Issued, subscribed and paid-up certificate capital		
25,000,000 (2016: 25,000,000) modaraba certificates of Rupees 10 each	<u>250,000,000</u>	<u>250,000,000</u>
22.1 7,500,000 (2016: 7,500,000) certificates of the Modaraba are held by National Bank Modaraba Management Company Limited, the management company.		
	2017 Rupees	2016 Rupees
<b>23 RESERVES</b>		
Capital reserves		
Statutory reserve (Note 23.1)	43,955,189	43,955,189
Revenue reserve		
Accumulated loss	(277,622,119)	(206,262,437)
	<u>(233,666,930)</u>	<u>(162,307,248)</u>
23.1 This represents special reserve created in compliance with the Prudential Regulations for Modarabas issued by SECP.		
<b>24 CONTINGENCIES AND COMMITMENTS</b>		
Contingencies	<u>NIL</u>	<u>NIL</u>
Commitments - facilities approved but not disbursed	<u>NIL</u>	<u>NIL</u>

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	2017 Rupees	2016 Rupees
<b>25 OTHER INCOME</b>		
Documentation charges	-	203,251
Service charges	97,018	126,828
Gain on disposal of fixed assets - own use	-	1,503,510
	<u>97,018</u>	<u>1,833,589</u>
<b>26 OPERATING EXPENSES</b>		
Salaries, allowances and other benefits (Note 26.3)	10,968,204	10,974,978
Communication	275,695	282,535
Travelling and conveyance	313,264	176,620
Vehicles' running	129,469	181,754
Postage and stamps	39,928	64,672
Advertisement	104,670	135,191
Legal and professional	947,941	1,231,190
Auditors' remuneration (Note 26.1)	546,830	539,480
Fees and subscription	681,903	943,115
Repairs and maintenance	280,552	266,607
Insurance	99,307	186,186
Stationery and printing	348,183	393,708
Entertainment	249,886	285,673
Depreciation on fixed assets - own use (Note 15)	84,099	238,925
Amortization	-	146,016
Other sundry expenses	105,104	83,431
	<u>15,175,035</u>	<u>16,130,081</u>
<b>26.1 Auditors' remuneration</b>		
Audit fee	302,500	302,500
Half yearly review fee	96,800	96,800
Certifications	97,600	97,600
Out of pocket expenses	49,930	42,580
	<u>546,830</u>	<u>539,480</u>

**26.2** Office space, utilities and related expenditure are borne by National Bank Modaraba Management Company Limited, Modaraba management company.

**26.3 Salaries, allowances and other benefits**

The aggregate amount charged for remuneration including all benefits to officers and employees of the Modaraba are as under:

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	2017			2016		
	Officers	Employees	Total	Officers	Employees	Total
	Rupees					
Salary	2,380,131	2,557,252	4,937,383	2,044,792	2,678,888	4,723,680
House rent allowance	1,045,837	1,132,620	2,178,457	1,022,400	1,290,835	2,313,235
Utilities	251,001	271,813	522,814	245,376	310,158	555,534
Bonus	482,319	520,389	1,002,708	434,518	548,330	982,848
Others	770,350	1,556,492	2,326,842	669,485	1,730,196	2,399,681
	4,929,638	6,038,566	10,968,204	4,416,571	6,558,407	10,974,978
Number of persons	3	8	11	3	9	12

26.3.1 Average number of employees during the year was 12 (2016: 14). All employees are on contract.

	2017 Rupees	2016 Rupees
<b>27 FINANCE COST</b>		
Short term finances		
Short term certificates of musharaka	15,879,672	7,426,922
Long term finances	-	16,089,320
Bank and other charges	7,684,799	21,246,751
	135,928	153,625
	23,700,399	44,916,618

27.1 This includes finance cost of Rupees 21,133,746 (2016: Rupees 8,651,373) on various facilities obtained from National Bank of Pakistan - associated undertaking.

	2017 Rupees	2016 Rupees
<b>28 PROVISION FOR DOUBTFUL RECEIVABLES</b>		
Opening balance	290,333,399	229,154,256
Add: Charged during the year (Note 28.1)	86,610,661	97,633,365
Less: Reversed during the year	(577,164)	(36,454,222)
Net provision charged during the year	86,033,497	61,179,143
Closing balance (Note 28.2)	376,366,896	290,333,399

28.1 This includes provision of Rupees 39.074 million (2016: Rupees Nil) recognized during the year on the basis of subjective evaluation of non-performing short term murabaha investments, ijarah rentals receivable and long term murabaha investments. The break-up is as under:

	2017 Rupees	2016 Rupees
Short term murabaha investments	18,473,740	-
Ijarah rentals receivable	3,100,000	-
Long term murabaha investments	17,500,000	-
	39,073,740	-



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## 28.2 Break up of closing balance

Provision against doubtful murabaha investments (Note 4.1 and Note 11.2)	297,065,441	218,648,993
Provision against accrued profit	6,786,858	6,786,858
Provision for doubtful ijarah rentals receivable (Note 6.2)	20,363,489	13,622,056
Provision against doubtful other receivables (Note 7.2)	29,244,256	28,368,640
Provision for doubtful net investment in ijarah finance (Note 9.2)	22,906,852	22,906,852
	<u>376,366,896</u>	<u>290,333,399</u>

## 29 MODARABA MANAGEMENT COMPANY FEE

In accordance with Section 18 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, management fee @ 10% of annual profits is paid to the modaraba management company. Owing to the loss during the year, the modaraba management company's fee has not been provided for.

	2017 Rupees	2016 Rupees
30 TAXATION		
Current:		
For the year (Note 30.1)	-	-
Deferred income tax (Note 30.2)	-	-
	<u>-</u>	<u>-</u>

30.1 No provision for current tax is recognized as the Modaraba has estimated carry forwardable tax losses of Rupees 256.973 million (2016: Rupees 195.890 million). Further, provision of minimum tax is not applicable to the Modaraba as per sub clause (xiii) of clause 11A of part IV of second schedule to the Income Tax Ordinance, 2001.

## 30.2 Deferred income tax

The asset for deferred income tax originated due to temporary differences relating to:

Accelerated tax depreciation	43,448,578	67,217,395
Carry forward tax losses	64,243,310	48,972,569
	<u>107,691,888</u>	<u>116,189,964</u>
Less: Deferred income tax asset not recognized	<u>(107,691,888)</u>	<u>(116,189,964)</u>
	<u>-</u>	<u>-</u>

30.2.1 The deferred income tax asset of Rupees 107.692 million (2016: Rupees 116.190 million) has not been recognized in these financial statements as the temporary differences are not expected to reverse in foreseeable future because taxable profits may not be available against which the temporary differences can be utilized.

## 31 LOSS PER CERTIFICATE - BASIC AND DILUTED

Loss attributable to ordinary certificates holders	Rupees	<u>(71,359,682)</u>	<u>(53,832,502)</u>
Weighted average number of ordinary certificates outstanding during the year	Numbers	<u>25,000,000</u>	<u>25,000,000</u>
Loss per certificate	Rupees	<u>(2.85)</u>	<u>(2.15)</u>

There is no dilution in loss per certificate as the Modaraba has not issued any instrument which would have an impact on its loss per certificate.

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32 FUTURE IJARAH RENTALS RECEIVABLE

Aggregate amount of future ijarah rentals receivable on the basis of agreements executed upto 30 June 2017 approximate to Rupees 197,917,339 (2016: Rupees 316,254,111). The amount of future ijarah rentals receivable and period during which they fall due are:

Not later than one year	160,949,631	193,619,780
Later than one year but not later than five years	36,967,708	122,634,331
Later than five years	-	-
	<u>197,917,339</u>	<u>316,254,111</u>

The Modaraba has entered into various ijarah agreement for periods ranging from 3 to 11 years (2016: 3 to 11 years). Security deposits ranging from 0% to 71% (2016: 5% to 73%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.46% to 14.46% (2016: 9.15% to 10.98%) per annum.

33 FINANCIAL RISK MANAGEMENT

The Modaraba has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors of the management company has overall responsibility for the establishment and oversight of the Modaraba's risk management framework.

33.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss to the Modaraba by failing to discharge an obligation. The risk is generally limited to principal amounts and accrued profit thereon, if any. The Modaraba's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the Prudential Regulations. The carrying amount of the following financial assets represents the maximum credit exposure at the reporting date:

	2017 Rupees	2016 Rupees
Bank balances	49,707,521	14,743,528
Ijarah rentals receivable	69,947,032	81,817,794
Other receivables	1,503,788	1,166,343
Accrued profit	388,493	487,183
Murabaha investments	31,457,351	147,362,871
Net investment in ijarah finance	32,922,381	33,523,562
Diminishing musharaka financing	36,596,274	56,670,888
Long term loans and deposits	1,596,381	2,640,817
	<u>224,119,221</u>	<u>338,412,986</u>

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### 33.1.1 Credit quality of banks

The credit quality of the Modaraba's bank balances can be assessed with reference to external credit ratings as follows:

	Rating			2017	2016
	Short term	Long term	Agency	Rupees	
National Bank of Pakistan	A1+	AAA	PACRA	295,939	2,512,948
Al Baraka Bank (Pakistan) Limited	A1	A	PACRA	252,945	10,723,856
Bank Alfalah Limited	A1+	AA	PACRA	4,964	140,696
First Women Bank Limited	A2	A-	PACRA	4,760	4,810
Allied Bank Limited	A1+	AA+	PACRA	-	4,733
Habib Bank Limited	A-1+	AAA	JCR-VIS	-	18,829
The Bank of Punjab	A1+	AA	PACRA	38,052	38,226
Bank Islami Pakistan Limited	A1	A+	PACRA	49,110,860	73,377
MCB Bank Limited (formerly NIB Bank Limited)	A1+	AA-	PACRA	-	54,591
United Bank Limited	A-1+	AAA	JCR-VIS	-	2,828
Bank Al-Habib Limited	A1+	AA+	PACRA	-	22
MCB Bank Limited	A1+	AAA	PACRA	1	1,168,612
				49,707,521	14,743,528

### 33.1.2 Description of collateral held

The Modaraba's ijarah arrangements (leases) are secured against ijarah assets, demand promissory notes, post dated cheques and personal guarantees varying from case to case. In a few arrangements additional collateral is also obtained in form of charge on fixed assets.

Murabaha investments are secured against charge over fixed and current assets, registered and equitable mortgage of properties, personal guarantees of directors of customer companies, demand promissory notes and post dated cheques varying from case to case.

Diminishing musharaka financings are secured by first charge on all present and future fixed assets of the client, registered and equitable mortgage on properties, personal guarantee of directors, post dated cheques and joint ownership of musharaka assets varying from case to case.

### 33.1.3 Age analysis of profit accrued on murabaha investments

Past due	30 June 2017				
	Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount
	Rupees				
0 days	-	-	-	-	-
1 day - 89 days	-	-	-	-	-
90 days - 179 days	-	-	-	-	-
180 days - 364 days	-	-	-	-	-
1 year - less than 2 year	2,068,453	-	2,068,453	2,068,453	-
2 year - less than 3 year	2,732,411	-	2,732,411	2,732,411	-
3 year or more	8,019,086	-	8,019,086	8,019,086	-
Total	12,819,950	-	12,819,950	12,819,950	-

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## Past due

0 days  
1 day - 89 days  
90 days - 179 days  
180 days - 364 days  
1 year - less than 2 year  
2 year - less than 3 year  
3 year or more  
Total

30 June 2016				
Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount
Rupees				
345,915	345,915	-	-	345,915
770,916	-	770,916	770,916	-
1,297,537	-	1,297,537	1,297,537	-
1,891,603	-	1,891,603	1,891,603	-
2,667,547	-	2,667,547	2,667,547	-
5,520,853	-	5,520,853	5,520,853	-
12,494,371	345,915	12,148,456	12,148,456	345,915

## 33.1.4 Age analysis of murabaha investments

## Past due

0 days  
1 day - 179 days  
180 days - 364 days  
1 year - less than 2 year  
2 year - less than 3 year  
3 year or more  
Total

30 June 2017				
Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision recognized under Prudential Regulations	Carrying amount
Rupees				
14,895,252	14,895,252	-	-	14,895,252
-	-	-	-	-
36,947,483	-	36,947,483	36,947,483	-
93,500,000	-	93,500,000	88,867,801	4,632,199
183,180,057	-	183,180,057	171,250,157	11,929,900
328,522,792	14,895,252	313,627,540	297,065,441	31,457,351

## Past due

0 days  
1 day - 179 days  
180 days - 364 days  
1 year - less than 2 year  
2 year - less than 3 year  
3 year and above  
Total

30 June 2016				
Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision recognized under Prudential Regulations	Carrying amount
Rupees				
49,284,321	49,284,321	-	-	49,284,321
14,872,637	-	14,872,637	-	14,872,637
22,074,849	-	22,074,849	4,414,970	17,659,879
76,600,000	-	76,600,000	27,800,000	48,800,000
90,018,933	-	90,018,933	73,272,899	16,746,034
113,161,124	-	113,161,124	113,161,124	-
366,011,864	49,284,321	316,727,543	218,648,993	147,362,871

Provisions are recognized by the Modaraba on the basis of time based criteria given under Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

## 33.1.5 Age analysis of ijarah rentals receivable

## Past due

0 days  
1 day - 89 days  
90 days - 179 days  
180 days - 364 days  
1 year - less than 2 year  
2 year - less than 3 years  
3 year or more  
Total

30 June 2017				
Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision / suspension made under Prudential Regulations	Carrying amount
Rupees				
940,414	940,414	-	-	940,414
10,564,673	10,564,673	-	-	10,564,673
523,210	523,210	-	-	523,210
27,914	-	27,914	4,746	23,168
3,270,553	-	3,270,553	180,386	3,090,167
83,296,711	-	83,296,711	28,491,311	54,805,400
12,998,504	-	12,998,504	12,998,504	-
111,621,979	12,028,297	99,593,682	41,674,947	69,947,032

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Past due

30 June 2016				
Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision / suspension made under Prudential Regulations	Carrying amount
Rupees				
0 days	760,046	760,046	-	760,046
1 day - 89 days	14,615,824	14,615,824	-	14,615,824
90 days - 179 days	15,019,546	8,844,364	6,175,182	14,807,791
180 days - 364 days	244,628	-	244,628	238,455
1 year - less than 2 year	68,973,556	-	68,973,556	49,850,220
2 year - less than 3 years	2,732,141	-	2,732,141	1,545,458
3 year or more	10,202,376	-	10,202,376	-
<b>Total</b>	<b>112,548,117</b>	<b>24,220,234</b>	<b>88,327,883</b>	<b>81,817,794</b>

## 33.1.6 Age analysis of diminishing musharaka financing

Past due

30 June 2017				
Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	Carrying amount
Rupees				
0 days	16,364,820	16,364,820	-	16,364,820
1 day - 179 days	15,893,820	15,893,820	-	15,893,820
180 days - 364 days	-	-	-	-
1 year - less than 2 year	4,337,634	-	4,337,634 (Note 10.2)	4,337,634
2 year - less than 3 years	-	-	-	-
3 year or more	-	-	-	-
<b>Total</b>	<b>36,596,274</b>	<b>32,258,640</b>	<b>4,337,634</b>	<b>36,596,274</b>

Past due

30 June 2016				
Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	Carrying amount
Rupees				
0 days	31,831,521	31,831,521	-	31,831,521
1 day - 179 days	20,176,410	20,176,410	-	20,176,410
180 days - 364 days	-	-	-	-
1 year - less than 2 year	4,662,957	-	4,662,957 (Note 10.2)	4,662,957
2 year - less than 3 years	-	-	-	-
3 year or more	-	-	-	-
<b>Total</b>	<b>56,670,888</b>	<b>52,007,931</b>	<b>4,662,957</b>	<b>56,670,888</b>

## 33.1.7 Age analysis of profit accrued on diminishing musharaka financing

Past due

30 June 2017				
Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount
Rupees				
0 days	-	-	-	-
90 days - 179 days	388,493	388,493	-	388,493
180 days - 364 days	-	-	-	-
1 year - less than 2 year	705,646	-	705,646	-
2 year - less than 3 years	-	-	-	-
3 year or more	-	-	-	-
<b>Total</b>	<b>1,094,139</b>	<b>388,493</b>	<b>705,646</b>	<b>388,493</b>

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Past due

30 June 2016				
Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount
Rupees				
0 days	12,411	12,411	-	12,411
90 days - 179 days	128,857	128,857	-	128,857
180 days - 364 days	-	-	-	-
1 year - less than 2 year	593,321	-	593,321	-
2 year - less than 3 years	-	-	-	-
3 year or more	-	-	-	-
Total	734,589	141,268	593,321	141,268

Provisions are recognized by the Modaraba on the basis of time based criteria given under Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

33.1.8 Concentration of credit risk

The Modaraba manages credit risk and its concentration through diversification of activities to avoid undue concentration of risks with individuals, groups or specific industry segments. For this purpose, the Modaraba has established exposure limits for individuals and industrial sectors. Break-up of credit risk exposure by class of business is as follows:

30 June 2017					
Ijarah receivables and assets	Net Investment in Ijarah finance	Murabaha Investments	Diminishing musharaka	Total	% age
Rupees					
19,623,592	-	300,933	6,957,805	26,882,330	3.45
1,723,981	-	-	-	1,723,981	0.23
1,675,769	-	15,000,000	-	16,675,769	2.14
63,462,792	55,829,233	266,967,065	2,772,744	389,031,834	49.88
9,297,000	-	-	-	9,297,000	1.20
2,491,992	-	23,859,542	4,337,634	30,689,168	3.94
94,545,613	-	22,395,252	-	116,940,865	15.00
93,230,188	-	-	9,788,688	103,018,876	13.21
19,491,880	-	-	-	19,491,880	2.50
30,625,849	-	-	-	30,625,849	3.93
22,896,976	-	-	12,739,403	35,636,379	4.57
359,065,632	55,829,233	328,522,792	36,596,274	780,013,931	100

30 June 2016					
Ijarah receivables and assets	Net Investment In Ijarah finance	Murabaha investments	Diminishing musharaka	Total	% age
-----Rupees-----					
44,763,637	-	300,933	8,036,469	45,064,570	4.26
5,608,198	-	-	-	5,608,198	0.53
6,041,857	-	40,000,000	-	46,041,857	4.35
97,511,998	56,430,414	275,648,420	4,384,617	429,590,832	40.61
14,181,566	-	-	-	14,181,566	1.34
8,632,542	-	23,859,542	4,662,957	32,492,084	3.07
133,031,148	-	26,202,969	-	159,234,117	15.05
140,838,938	-	-	13,733,396	170,363,105	16.10
30,420,554	-	-	-	30,420,554	2.88
45,689,223	-	-	-	72,835,944	6.89
52,022,132	-	-	25,853,449	52,022,132	4.92
578,741,793	56,430,414	366,011,864	56,670,888	1,057,854,959	100

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## 33.2 Liquidity risk

Liquidity risk is the risk that the Modaraba will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Modaraba could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Modaraba's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or damage to the Modaraba's reputation. The following are the contractual maturities of financial liabilities, including interest / profit payments:

30 June 2017						
Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years	
-----Rupees-----						
Non-derivative financial liabilities						
Accrued profit	2,094,045	2,094,045	2,094,045	-	-	-
Short term finances	201,634,754	202,794,126	202,794,126	-	-	-
Creditors, accrued and other liabilities	1,539,512	1,539,512	1,539,512	-	-	-
Long term finances	50,000,002	59,120,516	19,867,762	19,815,570	19,437,184	-
Total	255,268,313	265,548,199	226,295,445	19,815,570	19,437,184	-

30 June 2016						
Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years	
-----Rupees-----						
Non-derivative financial liabilities						
Accrued profit	6,438,136	6,438,136	6,438,136	-	-	-
Short term finances	274,918,586	275,143,202	275,143,202	-	-	-
Creditors, accrued and other liabilities	1,181,354	1,181,354	1,181,354	-	-	-
Long term finances	151,666,668	168,990,166	90,166,793	19,786,644	59,036,729	-
Total	434,204,744	451,752,858	372,929,485	19,786,644	59,036,729	-

33.2.1 The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up / profit rates effective as at year end (and includes both principal and profit payable thereon).

## 33.3 Market risk

Market risk is the risk that changes in market price such as foreign exchange rates, interest / profit rates and equity prices will effect the Modaraba's income or the value of its holdings of financial instruments.

### 33.3.1 Currency risk

Currency risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables exist due to transactions in foreign currencies. Currently, the Modaraba do not have any receivables or payables that exist due to transactions in foreign currencies which expose it to currency risk.

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### 33.3.2 Interest / profit rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest / profit rates.

The Modaraba's interest /profit rate risk arises from long term finances, short term finances, bank balances in saving accounts, net investment in ijarah finance, diminishing musharaka, murabaha investments and loans to employees. Long term finances and short term finances obtained, murabaha investments, diminishing musharaka and balances in saving accounts at variable rates expose the Modaraba to cash flow interest / profit rate risk. Long term loans to employees made at fixed rate expose the Modaraba to fair value interest / profit rate risk.

At the balance sheet date the interest / profit rate profile of the Modaraba's interest bearing financial instruments was:

	2017 Rupees	2016 Rupees
<b>Fixed rate instruments</b>		
<b>Financial assets</b>		
Loans to employees	1,556,881	2,601,317
<b>Floating rate instruments</b>		
<b>Financial assets</b>		
Murabaha investments	31,457,351	147,362,871
Ijarah rentals receivable	69,947,032	81,817,794
Bank balances	49,388,833	12,486,475
Diminishing musharaka financing	36,596,274	56,670,888
Net investment in ijarah finance	32,922,381	33,523,562
<b>Financial liabilities</b>		
Long term finances	(50,000,002)	(151,666,668)
Short term finances	(201,634,754)	(274,918,586)

#### Fair value sensitivity analysis for fixed rate instruments

The Modaraba does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest / profit rate at the balance sheet date would not affect profit or loss of the Modaraba.

#### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest / profit rates at the reporting date would have increased / (decreased) the loss for the year by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the year 2016. Following will be impact on the profit and loss account and the equity of the Modaraba:

	30 June 2017		30 June 2016	
	100 bps		100 bps	
	Increase	Decrease	Increase	Decrease
	Rupees	Rupees	Rupees	Rupees
Floating rate financial assets	2,203,119	(2,203,119)	3,318,616	(3,318,616)
Floating rate financial liabilities	(2,516,349)	2,516,349	(4,265,854)	4,265,854
Net effect	(313,230)	313,230	(947,238)	947,238



## Annual Report 2017

The sensitivity analysis prepared is not necessarily indicative of the effects on loss for the year and assets / liabilities of the Modaraba. This analysis is prepared assuming the amounts of liabilities and assets outstanding at balance sheet dates were outstanding for the whole year.

### 33.3.3 Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest / profit rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Modaraba is not exposed to commodity price risk and equity price risk.

### 33.4 Financial instruments by categories

	Loans and receivables	
	2017	2016
	Rupees	Rupees
<b>Financial assets as per balance sheet</b>		
Bank balances	49,707,521	14,743,528
Ijarah rentals receivable	69,947,032	81,817,794
Other receivables	1,503,788	1,166,343
Accrued profit	388,493	487,183
Murabaha investments	31,457,351	147,362,871
Net investment in ijarah finance	32,922,381	33,523,562
Diminishing musharaka financing	36,596,274	56,670,888
Long term loans and deposits	1,596,381	2,640,817
	<u>224,119,221</u>	<u>338,412,986</u>
	Liabilities at amortized cost	
	2017	2016
	Rupees	Rupees
Accrued profit payable	2,094,045	6,438,136
Short term finances	201,634,754	274,918,586
Creditors, accrued and other liabilities	1,539,512	1,181,354
Long term finances	50,000,002	151,666,668
	<u>255,268,313</u>	<u>434,204,744</u>

## 34 RECOGNIZED FAIR VALUE MEASUREMENTS - FINANCIAL INSTRUMENTS

### Fair value hierarchy

Certain financial assets and financial liabilities are not measured at fair value if the carrying amounts are a reasonable approximation of fair value. Due to short term nature, carrying amounts of certain financial assets and financial liabilities are considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different to their carrying amounts. Judgements and estimates are made in determining the fair values of the financial instruments that are recognised and measured at fair value in these financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Modaraba classify its financial instruments into the following three levels. However, as at the reporting date , the Modaraba has no such type of financial instruments which are required to be grouped into these levels. These levels are explained as under.

## First National Bank Modaraba

**Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the modaraba is the current bid price. These instruments are included in level 1.

**Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

### 35 INFORMATION FOR ALL SHARES ISLAMIC INDEX SCREENING

Description	Note	2017		2016	
		Carried under		Carried under	
		Non-Shariah arrangements	Shariah arrangements	Non-Shariah arrangements	Shariah arrangements

----- (Rupees) -----

#### 35.1 Assets

##### Loans and advances

Short term murabaha investments - secured	4	-	19,216,842	-	98,334,293
Ijarah rentals receivable	6	-	69,947,032	-	81,817,794
Net investment in ijarah finance	9	-	32,922,381	-	33,523,562
Diminishing musharaka financing - secured	10	-	36,596,274	-	56,670,888
Long term murabaha investments - secured	11	-	46,808,839	-	84,197,908
Loans to employees	12	-	1,556,881	2,601,317	-

#### 35.2 Deposits

Long term deposits	12	-	39,500	-	39,500
--------------------	----	---	--------	---	--------

#### 35.3 Bank balances

	3	286,814	49,420,707	1,751,658	12,991,870
--	---	---------	------------	-----------	------------

#### 35.4 Liabilities

##### Loan and advances

Security deposits against ijarah assets	19	-	176,582,872	-	261,723,821
Long term financing	20	50,000,002	-	151,666,668	-
Short term borrowings	16	201,634,754	-	249,918,586	25,000,000

**35.6** The whole revenue of the Modaraba is earned from dealing islamic mode of financing.

Name	Relationship	
	Non Islamic window operations	With Islamic windows operations
Al-Baraka Bank (Pakistan) Limited	-	✓
Allied Bank Limited	✓	-
Bank Al Habib Limited	✓	-
Bank Alfalah Limited	✓	-
Bank Islami Pakistan Limited	-	✓
First Women Bank Limited	✓	-
Habib Bank Limited	✓	-
MCB Bank Limited	✓	✓
National Bank of Pakistan	✓	-
MCB Bank Limited (formerly NIB Bank Limited)	✓	-
The Bank of Punjab	✓	-
United Bank Limited	✓	-

Related parties comprise of associated companies, modaraba management company and its holding undertaking, directors of the Modaraba management company and key management personnel. Detail of transactions with related parties and balances outstanding with them at the year end are as follows:

### 36.2 Transactions during the year

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## First National Bank Modaraba

### 37 SEGMENT INFORMATION

As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Managing director of the Modaraba has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

The Managing director is responsible for the Modaraba's entire product portfolio and considers the business to have a single operating segment. The Modaraba's asset allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on an overall basis.

The internal reporting provided to the Managing director for the Modaraba's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of approved accounting standards as applicable in Pakistan.

The Modaraba is domiciled in Pakistan. All of the Modaraba's income is from investment in entities incorporated in Pakistan.

The Modaraba also has a diversified certificate holder population. As at 30 June 2017, there was only one (30 June 2016: one) certificate holder (National bank of Pakistan - the holding company of the Modaraba Management Company) who held more than 10% of the Modaraba's certificate capital. Its holding was 30% (30 June 2016: 30%).

### 38 DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been approved by the Board of Directors of National Bank Modaraba Management Company Limited and authorized for issue on October 05, 2017.


### 39 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. However, no significant reclassification has been made in these financial statements.

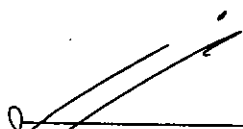
### 40 GENERAL

Figures have been rounded off to the nearest rupee.

Lahore: October 05, 2017

  
 Chief Executive Officer  
 National Bank Modaraba  
 Management Company Limited

  
 Director  
 National Bank Modaraba  
 Management Company Limited

  
 Director  
 National Bank Modaraba  
 Management Company Limited

# Annual Report 2017



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First National Bank Modaraba

PATTERN OF CERTIFICATE HOLDING  
AS ON JUNE 30, 2017

Number of ShareHolders	Shareholdings From	To	Total Number of Share Held	Percentage of Total Capital
77	1 -	100	2,746	0.01
346	101 -	500	165,022	0.66
207	501 -	1000	193,581	0.77
219	1001 -	5000	648,449	2.59
92	5001 -	10000	751,296	3.01
25	10001 -	15000	339,500	1.36
16	15001 -	20000	295,391	1.18
25	20001 -	25000	578,990	2.32
13	25001 -	30000	380,000	1.52
3	30001 -	35000	93,400	0.37
7	35001 -	40000	272,000	1.09
3	40001 -	45000	129,500	0.52
7	45001 -	50000	338,990	1.36
3	50001 -	55000	158,772	0.64
1	55001 -	60000	56,000	0.22
1	60001 -	65000	61,500	0.25
1	65001 -	70000	66,500	0.27
1	75001 -	80000	75,995	0.30
2	85001 -	90000	178,500	0.71
1	90001 -	95000	93,000	0.37
8	95001 -	100000	800,000	3.20
1	105001 -	110000	108,500	0.43
1	115001 -	120000	115,500	0.46
1	120001 -	125000	122,002	0.49
1	130001 -	135000	132,500	0.53
1	145001 -	150000	150,000	0.60
1	155001 -	160000	159,800	0.64
1	160001 -	165000	162,500	0.65
1	165001 -	170000	168,000	0.67
1	180001 -	185000	181,500	0.73
2	195001 -	200000	400,000	1.60
2	205001 -	210000	416,966	1.67
1	240001 -	245000	242,002	0.97
1	250001 -	255000	255,000	1.02
1	265001 -	270000	266,600	1.07
1	270001 -	275000	273,998	1.10
2	295001 -	300000	600,000	2.40
2	405001 -	410000	819,500	3.28
1	590001 -	595000	590,500	2.36
1	1280001 -	1285000	1,281,500	5.13
1	1495001 -	1500000	1,500,000	6.00
1	1870001 -	1875000	1,874,500	7.50
1	1995001 -	2000000	2,000,000	8.00
1	7495001 -	7500000	7,500,000	30.00
1,085			25,000,000	100.00

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CATEGORIES OF CERTIFICATE HOLDERS  
AS ON JUNE 30, 2017

First National Bank Modaraba

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Categories of Share Holders  
As on: June 30, 2017

P Date:18-Sep-2017  
S Type:Complete

Ser #	Code	Category	No. of Shareholder	Shares Held	Percentage of Total Capital
1	1	Individuals	1,074	16,674,001	66.6960
2	4	Joint Stock Companies	7	202,101	0.8084
3	9	Modaraba Management Cos	1	7,500,000	30.0000
4	10	Funds	1	300,000	1.2000
5	24	Others	2	323,898	1.2956
<b>TOTAL:</b>			<b>1,085</b>	<b>25,000,000</b>	<b>100.0000</b>

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## First National Bank Modaraba

CATEGORIES DETAILS  
AS ON JUNE 30, 2017

Category		Numbers of Certificates
<b>Individuals</b>		
<b>Joint Stock Companies</b>		
1	MAPLE LEAF CAPITAL LIMITED	1
2	MUHAMMAD AHMED NADEEM SECURITIES (SMC-PVT) LIMITED	100
3	DOSSLANI'S SECURITIES (PVT) LIMITED	500
4	AL-HAQ SECURITIES (PVT) LTD.	500
5	AMZ SECURITIES (PVT) LIMITED	500
6	FIKREE'S (SMC-PVT) LTD.	500
7	SALIM SOZER SECURITIES (PVT.) LTD.	200,000
<b>Modaraba Management Cos</b>		
1	NATIONAL BANK MODARBA MANAGEMENT COMPANY LIMITED	7,500,000
<b>Funds</b>		
1	TRUSTEES D.G. KHAN CEMENT CO. LTD. EMP. P.F	300,000
<b>Others</b>		
1	TRUSTEES ALOO & MINOCHER DINSHAW	49,900
2	TEACHERS RESOURCE CENTRE	273,998

## Certificate Holding of 5% and above

NATIONAL BANK MODARABA, MANAGEMENT COMPANY LIMITED	7,500,000
SHAKEEL ARSHAD	1,874,500
DURAIN CASSIM	1,500,000
DINAZ CASSIM	2,000,000
FIROZUDDIN CASSIM	1,281,500

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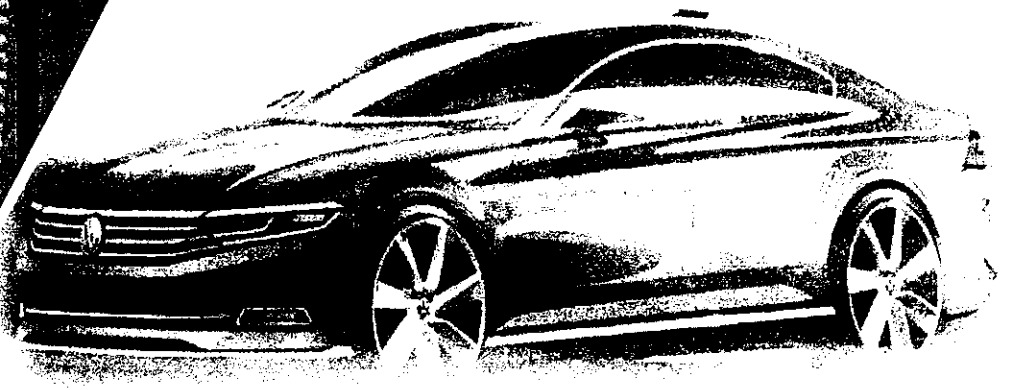
ATIF IJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad



ANNEX-J

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ATIF EGAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

**FIRST NATIONAL BANK MODARABA**

**MANAGED BY:**

**NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED**  
(A wholly owned subsidiary of National Bank of Pakistan)

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## CORPORATE INFORMATION

Board of Directors	Mr. Muhammad Imran Malik*	Chairman
	Rehmat Ali Hasnie	Director
	Syed Jamal Baquar	Director
	Khawaja Waheed Raza	Director
	Mr. Jamal Nasim	Director
	Mr. Muhammad Iqbal Hussain	Director
	Mr. Abbas Azam	CEO
Shari'ah Advisor	Mufti Ehsan Waquar Ahmed	
Chief Financial Officer/ Secretary	Mr. Ali Abbass Company	
Audit Committee	Mr Jamal Nasim	Chairman
	Khawaja Waheed Raza	Member
HR & Remuneration Committee	Khawaja Waheed Raza	Chairman
	Mr. Muhammad Iqbal Hussain	Member
Auditors	HORWATH HUSSAIN CHAUDHURY & CO. Chartered Accountants	
Bankers	National Bank of Pakistan Bank Alfalah Limited Al Baraka Islamic Bank Habib Bank Limited MCB Bank Limited First Women Bank Limited Bank Islami Pakistan Limited United Bank Limited	
Legal Advisor	Cornellius Lane & Mufti Advocates and Solicitors Nawa-i-Waqt House 4 - Shahrah-e-Fatima Jinnah, Lahore Tel.: 36360824, Fax: 36303301	
Shares Registrar	Hameed Majeed Associates (Pvt.) Limited H. M. House, 7 - Bank Square, Lahore Tel: 37235081-2, Fax: 37358817	
Registered Office	Ground Floor, NBP RHQs Building, 26 - McLagon Road, Lahore Tel: 042-99211200, Fax: 042-99213247 URL: <a href="http://www.nbmodaraba.com">http://www.nbmodaraba.com</a> E-mail: <a href="mailto:info@nbmodaraba.com">info@nbmodaraba.com</a>	

\*Just before the year end Mr. Aamir Amin has resigned from the Directorship. Mr. Muhammad Imran Malik was nominated by NBP as new Director, subject to the approval of the Registrar. Approval of Registrar in this regard was subsequently received.

## **NOTICE OF 15TH ANNUAL REVIEW MEETING & BOOK CLOSURE**

Notice is hereby given that the 15<sup>th</sup> Annual Review Meeting of certificate holders of First National Bank Modaraba will be held on Monday, October 29, 2018 at 11:00 a.m. at 4<sup>th</sup> Floor, NBP RHQs Building, 26 – McLagon Road, Lahore to review the performance of the Modaraba for the year ended June 30, 2018.

The Certificate Transfer Book will remain closed from October 23, 2018 to October 29, 2018 (both days inclusive) for the purpose of eligibility to attend the Annual Review Meeting.

The certificate holders whose names appear on the Register of Certificate Holders of First National Bank Modaraba at the close of business as on October 22, 2018 will be eligible to attend the Annual Review Meeting. All transfers received in order, up to the close of business on October 22, 2018 at our Registrar's Office, Hameed Majeed Associates (Pvt.) Limited, H.M House, 7 – Bank Square, Lahore will be considered in time.

**By order of the Board**



**Ali Abbass**

Company Secretary

National Bank Modaraba Management Company Limited

Managers of First National Bank Modaraba

Lahore: October 02, 2018

**Vision:**

To offer Shariah compliant Islamic Financial Products in the financial market so as to achieve optimum customer satisfaction and develop sustainable business relationships.

**Mission:**

Promote an Islamic Financial Institution where values of management excellence, professionalism, human resource development are promoted such that interests of all stakeholders are safeguarded.



### Annual Shari'ah Advisor's Report

I have conducted the Shari'ah review of First National Bank Modaraba managed by National Bank Modaraba Management Company Limited (NBMMCL), a wholly owned subsidiary of National Bank of Pakistan for the financial year ended June 30, 2018 in accordance with the requirements of the Shari'ah Compliance and Shari'ah Audit Mechanism for Modarabas and report that except the observations as reported hereunder, in my opinion:

- i. The Modaraba has introduced a mechanism for Shari'ah compliance and the systems, procedures and policies adopted by the Modaraba are in line with the Shari'ah principles;
- ii. No significant developments took place during the year.
- iii. The financing agreement(s) entered into by the Modaraba are Shari'ah compliant and the financing agreement(s) have been executed on the formats as approved by the Religious Board and all the related conditions have been met;
- iv. To the best of my information and according to the explanations given to me, the business transactions undertaken by the Modaraba and all other matters incidental thereto are in conformity with the Shari'ah requirements as well as the requirements of the Prospectus, Islamic Financial Accounting Standards as applicable in Pakistan and the Shari'ah Compliance and Shari'ah Audit Regulations for Modarabas
- v. Profit sharing ratios, profits and charging of losses (if any) relating to any deposit raising product conform to the basis and principles of Shari'ah.
- vi. The earnings that have been realized from the sources or by means prohibited by Shari'ah have been credited to charity accounts.

#### Observation(s)

During my review, it has been observed that:

- i. FNBM is maintaining bank accounts with conventional Bank.
- ii. Financing from conventional Bank(s) have been secured.
- iii. No training was conducted for the staff

#### Recommendation(s)

Following are some recommendation:

- i. FNBM must maintain account(s) in Islamic Banks/Islamic Windows of Conventional Banks only.
- ii. Matter arising from previous report that all credit lines with conventional banks were instructed to be replaced with Islamic Banking facilities. It is still outstanding and the management needs to resolve this at the earliest.

#### Conclusion

Based on the above-mentioned fact, I am of the view that the business operations of First National Bank Modaraba are Shariah compliant up to the best of my knowledge.

#### Signature

ع ھ

Mufti Ehsan Waquar  
Shari'ah Advisor

Dated: September 18, 2018

## DIRECTORS' REPORT

Board of Directors of National Bank Modaraba Management Company Limited (NBMMCL), the management Company of First National Bank Modaraba (FNB), is pleased to present the directors report on the 15<sup>th</sup> annual accounts of FNB for the period ended June 30, 2018. These accounts have been audited by the statutory auditors of the Modaraba and are accompanied by their audit report.

### Financial Results:

(Amounts in Rupees)

	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015	Year Ended June 30, 2014	Year Ended June 30, 2013
Balance Sheet Size	356,066,321	508,478,472	841,306,270	1,248,349,011	1,692,658,474	2,003,442,328
Total Equity	8,154,162	16,333,070	87,692,752	141,525,254	263,701,324	297,913,401
Total Operating & Other Income	85,367,807	179,801,462	314,368,924	451,401,503	558,123,884	567,094,855
Operating & Financial Exp.	86,075,547	163,231,481	302,048,194	460,444,217	592,335,961	583,957,399
Loss for the period	(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)	(16,862,544)
Modaraba Co.'s Management Fee	Nil	Nil	Nil	Nil	Nil	Nil
Net profit after tax	(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)	(16,862,544)
Earning per certificate (Rs.)	(0.33)	(2.85)	(2.15)	(4.89)	(1.37)	(0.67)
Return on Assets (%)	(2.30)	(13.9)	(6.39)	(9.76)	(2.01)	(0.83)
Return on Equity (%)	(101)	(436.9)	(61.52)	(87.14)	(12.92)	(5.65)
Dividend Paid (%)	Nil	Nil	Nil	Nil	Nil	Nil
Breakup value per certificate (Rs.)	.33	0.64	3.52	5.64	10.52	11.88

### Sector Outlook:

The economy during 2017-2018 was marked with decreasing exports and increasing current account deficit that has reached its record low levels. Perhaps it was the consequence of heavy imports of capital goods for large infrastructural projects being undertaken particularly under the CPEC. Moreover the business activity in general did not pick up as it was the election year leading up to the general elections of July 2018. The investors, expecting a change of regime, have preferred to sit on the fence and wait for the stability in Govt.'s economic policies to come about. The stock market accordingly remained range bound. The energy shortages were although reduced considerably, however its cost did not appear to have suited many industrial setups. By the end of the year the rising instability in the foreign exchange rates amid the upcoming installments of Country's foreign debt, further aggravated

the uncertainty lurking in the economy. The situation is expected to stabilize once the new Govt. comes up with its definitive economic reform policies.

Financial sector, including the Modaraba sector, remained more or less steady, and under the prevailing economic conditions any notable recoveries from NPLs did not materialize. The sustainable performance of the sector would, however, depend on the growth of overall economy and rehabilitation of those industrial units where most of the sector's investments have been stuck up. Islamic financing is evolving continuously and gaining more and more ground each year. Hence financial Modarabas can also prosper by developing their own niche markets through innovation, technology and product development.

#### **Going Concern Assumption**

The Board, as a policy, ensured that the charge of provisioning on non-performing portfolio is in line with existing regulations. The deterioration of the quality of assets, comprising mainly of exposures in the textile sector booked long ago, attracted substantial provisions. In order to keep provisions at the stipulated level the Modaraba has therefore been incurring losses for last six years.

Due to losses, the Board of Directors of the parent bank, National Bank of Pakistan (NBP) on 21 April 2017 authorized the Management Company to explore various appropriate options for the cessation of the operations of the Modaraba and management company. The Board of the company presented an evaluation in this respect and based on which NBP Board in June 22, 2018 revised and reversed its earlier decision, and resolved that FNBM should be recapitalized with Rs.300 million at Rs.10 per certificate to enhance its paid up capital. For this an application is being filed with SECP seeking its approval for issuance of 30 million certificates at par, other than right issue, directly to NBP.

These financial statements have been prepared on going concern basis of accounting. Last year they were prepared on non-going concern basis. This year external auditors have only included an "emphasis of matter paragraph" in their audit report on going concern ability of FNBM on the basis of difference in current assets and liabilities, the mitigating factors are fully explained in note 1.2 to the financial statements.

#### **Review of Operations:**

During the period under review, the management remained focused only on recovery from non-performing portfolio. Several recovery suits that were earlier initiated against defaulter parties were decreed in FNBM's favor by the relevant Banking Courts, and their execution proceedings were underway. Some cash settlements with defaulter parties were also made. The regular portfolio performed well and generated income consistently.

The balance sheet size shrunk from Rs.508 million in the corresponding year to Rs.356 million this year. The Income from credit portfolio as well as the finance cost declined proportionately. Despite general inflation the operating expenses were kept under control and remained around Rs.15 Million which is almost same as last year. However the operating profit when coupled with a net charge of further provisioning / impairment amounting on account of reduction in the impact of FSVs of collaterals held against some old classified accounts, resulted in a net loss of Rs.8.1 million. The loss per certificate accordingly remained at Rs.0.33 as against Rs.2.85 in the corresponding year.

FNBM ensures conformity with the Shariah compliance and Shariah audit mechanism for Modarabas. In this respect Sharia'h Advisor's report is attached. The amounts advised by the Sharia'h advisor to be paid as charity, has been credited to the charity account. During the year, an amount of Rs.0.4 Million was paid as charity to approved charitable institutions as per policy approved by the board of directors.



**Profit Distribution**

Board in its meeting held on October, 02 2018 did not declare any dividends due to the aforementioned reasons.

**Future Outlook:**

Following the injection of fresh equity and improving on the past experience, the new business activity is planned to be focused mainly on small ticket financing of consumer/ commercial vehicles and standalone machinery/equipment to small and medium size enterprises.

The returns on new financing, coupled with recoveries from existing non-performing classified portfolio, are expected to enable FNBM to start paying dividends regularly in few years.

**Corporate and Financial Reporting Framework:**

- The financial statements, prepared by the management of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Modaraba have been maintained.
- Accounting policies have been applied consistently, unless otherwise stated in financial statements, in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, International accounting standards, and Islamic Financial Accounting Standards as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements.
- The system of internal control, which is sound in design is in place and is being continuously reviewed by internal audit. The process of review will continue and any weakness in controls will be removed.
- Board is of the view that Modaraba will be able to continue as going concern.
- There has been no material departure from the best practices of corporate governance as detailed in the listing regulations except for those specifically mentioned in the statement of compliance with the CCG.
- There are no statutory payments on account of taxes, duties, levies and charges, which are outstanding as on June 30, 2018 except those disclosed in the financial statements.
- During the year ended June 30, 2018 six (06), meetings of the Board of Directors were held. Besides (04) four Audit committee and One (01) HR Committee meetings were also held. Attendance by each directors is as follows:

Name	No. of Attendance		
	Board	Audit Committee	HR Committee
i. Rehmat Ali Hasnie	5	N/A	N/A
ii. Syed Jamal Baquar	1	N/A	N/A
iii. Syed Hasan Irtiza Kazmi	1	N/A	N/A
iv. Khawaja Waheed Raza	6	4	1
v. Mr. Jamal Nasim	6	4	N/A
vi. Mr. Muhammad Iqbal Hussain	6	N/A	1
vii. Mr. Aamir Amin	6	4	1
viii. Mr. Abbas Azam	6	N/A	N/A

Mr. Aamir Amin resigned just before the year end, creating casual vacancy in the Audit and HR committee's of the board, which would accordingly be filled.

Mr. Muhammad Imran Malik was appointed as NBP's nominee director just before the year end, while approval of the appointment from SECP came after the year end. Leave of absence was granted to directors who could not attend some of the Board meetings. The remuneration of the CEO and meeting fee of the non-executive members of the board of directors are paid by the management company, NBMMCL.

The pattern of certificate holders is annexed.

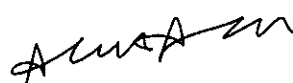
**1. Auditors:**

The retiring auditors M/s. Horwath Hussain Chaudhry & Co Chartered Accountants, who replaced M/s Riaz Ahmed & Co Chartered Accountants during the year upon approval of SECP, have given their consent to act as auditors for the year ending June 30, 2019. Their appointment has been confirmed by the Board, subject to approval by the Registrar Modaraba Companies and Modarabas SECP.

**2. Acknowledgement:**

The Board would like to take this opportunity of expressing gratitude and thanks to our valued certificate holders their patronage and support, the Securities and Exchange Commission of Pakistan, Pakistan Stock Exchange, and NBFI & Modaraba Association of Pakistan for their continued support and guidance.

**For and on Behalf of the Board**



Chief Executive Officer

## ڈائریکٹر رپورٹ

بورڈ آف ڈائریکٹر نیشنل بینک مضافہ بینجمنٹ کمپنی لمیٹڈ (NBMMCL)، ”منتظم“ فرسٹ نیشنل بینک مضافہ کی جون 2018ء کو ختمہ سال کے لئے فرسٹ نیشنل بینک مضافہ کی 15 ویں سالانہ مالیاتی رپورٹ پیش کرتے ہوئے خوش محسوس کر رہے ہیں، یہ مالیاتی نتائج فرسٹ نیشنل بینک مضافہ کے قانونی محاسب کی رپورٹ کے ساتھ پیش کئے گئے ہیں۔

### مالی نتائج

(Amounts in Rupees)

30 جون 2013ء کو اختتام پذیر سال	30 جون 2014ء کو اختتام پذیر سال	30 جون 2015ء کو اختتام پذیر سال	30 جون 2016ء کو اختتام پذیر سال	30 جون 2017ء کو اختتام پذیر سال	30 جون 2018ء کو اختتام پذیر سال	
2,003,442,328	1,692,658,474	1,248,349,011	841,306,270	508,478,472	356,066,321	بیلنس شیٹ سائز
297,913,401	263,701,324	141,525,254	87,692,752	16,333,070	8,154,162	کل نصف
567,094,855	558,123,884	451,401,503	314,368,924	179,801,462	85,367,807	کل آپریٹنگ اور دیگر آمدنی
583,957,399	592,335,961	460,444,217	302,048,194	163,231,481	86,075,547	آپریٹنگ اور مالیاتی اخراجات
(16,862,544)	(34,212,077)	(122,176,070)	(53,832,502)	(71,359,682)	(8,178,908)	ہر مدت کا نتائج
Nil	Nil	Nil	Nil	Nil	Nil	مضافہ کمپنی کی انتظامی نفیس
(16,862,544)	(34,212,077)	(122,176,070)	(53,832,502)	(71,359,682)	(8,178,908)	خالص نتائج مساوائے نفیس
(0.67)	(1.37)	(4.89)	(2.15)	(2.85)	(0.33)	نی سربقیٹ آمدنی (روپے)
(0.83)	(2.01)	(9.76)	(6.39)	(13.9)	(2.30)	اچاؤں پر بیڑن (%)
(5.65)	(12.92)	(87.14)	(61.52)	(436.9)	(101)	نصف پر بیڑن (%)
Nil	Nil	Nil	Nil	Nil	Nil	اداشہ و منافع منقسمہ (%)
11.88	10.52	5.64	3.52	0.64	.33	سربقیٹ کی ریک اپ قدر (روپے)

### سیکٹر کا جائزہ

سال 2017-2018 میں معیشت میں ایکسپورٹ کی کمی ہوئی جبکہ کرنٹ اکاؤنٹ خسارہ ریکارڈ لیول تک پہنچ گیا جس کی وجہ CPEC کے لیے بنائے جانے والے بڑے بنیادی ڈھانچے کے منصوبوں کے لیے کیپٹل گڈز کی بھاری امپورٹ ہو سکتی ہے اس کے علاوہ عمومی کاروباری سرگرمی میں بھی انکیشن کا سال ہونے کی وجہ سے کچھ زیادہ بہتری نہ آ سکی سرمایہ کار نے حکومت میں تبدیلی کی توقع رکھتے ہوئے حکومت کی پالیسی استحکام کا انتظار کرنے کو بہتر سمجھا، اور اسٹاک مارکیٹ ایک رینج میں محدود رہی توانائی کی کمی اگرچہ بہت کم ہوئی مگر اس کی لاگت صنعت کے لیے بہت مناسب نہ تھی سال کے آخر میں غیر ملکی کرنسی کی شرح کا عدم استحکام اور آنے والی غیر ملکی قرضہ کی قسط نے مجموعی طور پر غیر یقینی اور تنجینی کو فروغ دیا۔ نئی حکومت کی طرف سے مستحکم اقتصادی اصلاحات کے نفاذ کے بعد صورتحال میں بہتری کی توقع ہے مالیاتی شعبے بشمول مضافہ سیکٹر، تقریباً مستحکم رہا۔ سیکٹر میں پائیدار کارکردگی مجموعی طور پر معیشت کی ترقی اور صنعتی بحالی سے منسلک ہے جس میں زیادہ تر سرمایہ کاری بھنسی ہوئی ہے۔ اسلامک فائنانسنگ مشنل اور مسلسل ترقی کر رہی ہے

گورننگ کنسرن قابلیت:

بورڈ نے یقینی بنایا کہ غیر فعال پورٹ فولیو پر پرویزن تو انیوضوابط کے مطابق رہیں۔ کافی عرصہ پہلے دیے گئے اثاثوں کی معیار میں کمی نے پرویزن افریکٹ کی۔ پرویزن کو اس لیول پر رکھنے کی وجہ سے مضافہ کا نقصان بڑھ رہا ہے۔ نقصانات کو مد نظر رکھتے ہوئے بیڑن بینک کے بورڈ آف ڈائریکٹرز نے نیشنل بینک آف پاکستان نے 21 اپریل 2017 کو بینجمنٹ کمپنی کو مضافہ کے آپریٹس سے علیحدگی کے لیے مناسب طریقہ ڈھنڈے کا اختیار دیا کہ -NBMMCL کے بورڈ نے 22 اس سے متعلق تشخیصی پیش کی جس کی بنیاد

پر NBP کے بورڈ نے جون 2018 کو اپنے پہلے فیصلے پہ نظر ثانی کرتے ہوئے تبدیل کر دیا اور FNBم کو 3 کروڑ سے ری کپٹا لائز کرنے کا فیصلہ کیا۔ اس کے لیے SECP کو 3 کروڑ روپے کے سرٹیفکیٹ جاری کرنے کی منظوری دینے کی درخواست ڈائریکٹری NBP کو دی جا رہی ہے۔ یہ مالی تفصیلات گونگ کنسرن کی بنیاد پہ بنائی گئی ہیں۔ پچھلے سال یہ نان گونگ کنسرن کی بنیاد پہ بنائی گئی تھی۔ اس سال آڈیٹر نے اپنی آڈٹ رپورٹ میں FNBم کے موجودہ اثاثہ جات اور قرضوں کے فرق کی بنیاد پہ صرف "ایمفسر آف میٹر پیرا گراف" ڈالا ہے۔

#### آپریشنز کا جائزہ:

زیر جائزہ مدت کے دوران انتظامیہ کی توجہ فیہ فعال پورٹ فولیو پر رہی۔ منع ریکوری مقدمے جو پہلے کئے گئے تھے پر FNBم کے حق میں فیصلہ آ یا جن پہ عملدرآمد جاری ہے۔ کچھ نقد وصولیاں بھی کی گئی۔ ریگولر پورٹ فولیو نے اچھی اکم سنریٹ کی۔ بینلس شیٹ پچھلے سال کے 508 ملین روپے کے مقابلے میں 350 ملین روپے رہا۔ اکم اور فنانس خرچہ بھی اسی تناسب سے نیچے آیا عمومی افراط زر کے باوجود آپریٹنگ اخراجات کو قابو میں رکھا گیا کچھ پرانے اکاؤنٹس کی FSV کم ہونے کی وجہ سے پرویزن اور ایجنر منٹ ڈالنے پر آخر میں 8.1 ملین کا نقصان ہوا۔ نقصان فی سرٹیفکیٹ پچھلے سال کے 2.85 روپے کے مقابلے میں 0.033 روپے رہا۔

FNBم شریعہ کمپلائنس اور مضاربہ کے لیے شریعہ آڈٹ میکانزم کی تعمیل کو یقینی بناتا ہے۔ اس تناظر میں شریعہ ایڈوائزر کی رپورٹ کے ساتھ منسلک ہے۔ صدقہ کے طور پر 0.4 ملین روپے منظر شدہ خیراتی اداروں کو دیے گئے۔

بیرونی آڈیٹر نے اپنی رپورٹ میں ایمفیز آف میٹر کا ایک پیرا گراف شامل کیا ہے جو FNBم کی جاری کاروباری قابلیت سے متعلق ہے۔ اس حوالے سے، بورڈ کا موقف وہی ہے جو مالی اسٹیٹمنٹس کے نوٹ 1.1 میں دیا گیا ہے۔

FNBم شریعہ کی تعمیل اور مضاربہ کے لیے شریعہ آڈٹ کے طریقہ کار کی یقین دہانی کرتا ہے۔ اس حوالے سے شریعہ مشیر کی رپورٹ لف ہے۔ دوران سال، مبلغ 0.400/- ملین روپے کی رقم صدقہ خیراتی اداروں کو بمطابق پالیسی منظور کردہ بورڈ آف ڈائریکٹرز، بطور خیرات ادا کی گئی۔

#### منافع کی تقسیم:

بورڈ نے 30 ستمبر 2018 کو ہونے والی میٹنگ میں ڈیویڈنڈ کا اعلان نہیں کیا۔

#### مستقبل کا جائزہ

ایکویٹی کے آنے اور ماضی کے تجربات سے سیکھ کر نئی کاروباری سرگرمی کے مطابق بنیادی توجہ گاہیوں کے چھوٹے قرضوں پر مرکوز رکھی جائے گی۔ نئے قرضوں پر ریٹرن اور پرانے غیر معیاری قرضوں کے FNBم چند سالوں میں ڈیویڈنڈ دینا شروع کر دے گا۔

#### تجارتی اور مالی رپورٹنگ کا ڈھانچہ عمل

مضاربہ کی انتظامیہ کی جانب سے تیار کردہ مالی اسٹیٹمنٹس اس کے معاملات کو، عوامل کے نتائج کو، کیش فلو اور ایکویٹی میں تبدیلیوں کو جائز طور پر پیش کرتے ہیں۔ مضاربہ کے باقاعدہ کھاتے برقرار رکھے گئے ہیں۔

مالی اسٹیٹمنٹس کی تیاری میں اکاؤنٹنگ کی مناسب پالیسیاں مسلسل لاگو کی گئی ہیں اور اکاؤنٹنگ کے تخمینہ جات معقول اور محتاط فیصلوں پر مبنی ہیں۔

مالی اسٹیٹمنٹس کی تیاری میں پاکستان میں مضاربہ پر لاگو بین الاقوامی مالی رپورٹنگ اور اسلامی اکاؤنٹنگ کے معیار کی پیروی کی گئی ہے۔

اندرونی کنٹرول کا نظام اپنے ڈھانچے میں درست اور اس کا اطلاق اور نگرانی موثر طریقے سے کی گئی ہے۔

مضاربہ کے بطور مسلسل کاروبار جاری رہنے کی قابلیت میں کوئی کاخطر خواہ شبہ نہ ہے۔

لسٹنگ کے قوانین میں تفصیلاً بیان کردہ کاروباری گورننس کے بہترین عمل میں کوئی قابل ذکر تبدیلی نہ ہوئی ہے۔

ٹیکسز، ڈیویڈنڈ، لیویز اور چارج کی مدد میں 30 جون 2018 تک کی آئینی ادائیگیوں میں کوئی واجب الادا مطالبات نہ ہیں ماسوائے ان کے جو مالی اسٹیٹمنٹ میں بیان کیے گئے ہیں۔

30 جون 2018 کو اختتام پذیر ہونے والے سال میں بورڈ آف ڈائریکٹرز کی 6 میٹنگز منعقد ہوئیں۔ اس کے علاوہ آڈٹ کمیٹی کی 4 میٹنگز اور ایچ آر

کمیٹی کی ایک میٹنگ منعقد ہوئی۔ ہر ڈائریکٹر کی حاضری درج ذیل ہے:

تعداد حاضری

نام	بورڈ	آڈٹ کمیٹی	ایچ آر کمیٹی
رحمت علی حسنی	5	N/A	N/A
سید جمال باقر	1	N/A	N/A
ارغی کاشمی	1	N/A	N/A
خواجہ وحید رضا	6	4	1
جمال نسیم	6	4	N/A
محمد اقبال حسین	6	N/A	1
عامر امین	6	4	1
عباس اعظم	6	N/A	N/A

مسٹر عامر امین نے سال کے اختتام سے تھوڑا پہلے استعفیٰ دے دیا تھا۔ مسٹر محمد عمران ملک NBP کی طرف سے نامزد کیے گئے۔ انکی نامزدگی رجسٹرار کی منظوری سے مشروط تھی۔ رجسٹرار کی منظوری جون کے بعد وصول ہو گئی تھی۔

وہ ڈائریکٹرز جو کچھ بورڈ میٹنگز میں شرکت نہیں کر سکے انھیں غیر حاضری کی چھٹی دی گئی۔ CEO کا معاوضہ اور بورڈ آف ڈائریکٹرز کے Non-Executive ارکان کی میٹنگ فیس انتظامی کمیٹی NBMCL کی جانب سے ادا کی گئی۔

سرٹیفکیٹ ہولڈرز کی ترتیب لف ہذا ہے۔

آڈیٹرز

آڈٹ کمیٹی کی سفارش پر، بورڈ نے آپ کے موجودہ آڈیٹر ہار دتھ حسین چودھری چارٹرڈ اکاؤنٹنٹس، جن کو ریاض احمد اینڈ کمپنی چارٹرڈ اکاؤنٹنٹس کی جگہ مقرر کیا گیا تھا، کی تقرری بطور آڈیٹرز برائے سال 30 جون 2019 منظور کی ہے، جو رجسٹرار مضار پکینیز و مضاربہ جات کی منظوری سے مشروط ہے۔

اعتراف

بورڈ اس موقع پر اپنے معزز سرٹیفکیٹ ہولڈرز، سکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان کا، پاکستان اسٹاک ایکسچینج لمیٹیڈ کا اور مضاربہ ایسوسی ایشن آف پاکستان کا ان کی مسلسل حمایت، رہنمائی اور سرپرستی کے لیے شکریہ ادا کرنا چاہتا ہے۔

برائے و بجانب بورڈ

*Aman*

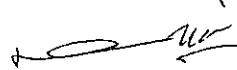
چیف ایگزیکٹو آفیسر

**Statement of Compliance with Listed Companies  
(Code of Corporate Governance) Regulations, 2017**

The company has complied with the requirements of the Regulations in the following manner:

1. The total number of directors are seven as per the following:
  - a. Male: Seven
  - b. Female: Nil
2. The composition of board is as follows:
  - a) Independent Directors: Three
  - b) Other Non-executive Director: Three
  - c) Executive Directors: One
3. The directors have confirmed that none of them is serving as a director on more than five listed Companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).
4. The company has prepared a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
5. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
6. All the powers of the board have been duly exercised and decisions on relevant matters have been taken by board/ shareholders as empowered by the relevant provisions of the Act and these Regulations.
7. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose. The board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of board.
8. The board of directors have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.
9. The Board has not yet arranged Directors' Training program for the directors as some of the directors had already obtained the relevant training or are exempt under the regulations.
10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment and complied with relevant requirements of the Regulations.
11. CFO and CEO duly endorsed the financial statements before approval of the board.
12. The board has formed committees comprising of members given below:
  - a) Audit Committee (Mr. Jamal Nasim Chairman and Mr. Khawaja Waheed Raza member)

- b) HR and Remuneration Committee (Mr. Khawaja Waheed Raza Chairman and Mr. Muhammad Iqbal Hussain member)
  - c) Nomination Committee (not applicable)
  - d) Risk Management Committee (Mr. Khawaja Waheed Raza Chairman, Mr. Muhammad Iqbal Hussain, member, Mr. Jamal Nasim member)
13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance.
14. The frequency of meetings (quarterly/half yearly/ yearly) of the committee were as per following:
- a) Audit Committee: quarterly
  - b) HR and Remuneration Committee: yearly
  - c) Nomination Committee (not applicable)
  - d) Risk Management Committee: quarterly
15. The board has set up an effective internal audit function.
16. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP and registered with Audit Oversight Board of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP
17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard.
18. Chief Financial Officer (CFO) of the Modaraba does not meet the qualification criteria as required by the clause 23. A qualified person, fulfilling CCG criterion shall be deployed by 31/11/18.
19. The positions of Company Secretary and the CFO shall be segregated to meet CCG's requirements by 31/11/18.
20. We confirm that all other requirements of the Regulations have been complied with.



Signature (s)  
Chairman

**Review Report on the Statement of Compliance contained in Listed Companies  
(Code of Corporate Governance) Regulations, 2017**

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2017 (the Regulations) prepared by the Board of Directors of National Bank Modaraba Management Company Limited (the Management Company) for and on behalf of First National Bank Modaraba (the Modaraba) for the year ended June 30, 2018 in accordance with the requirements of regulation 40 of the Regulations.

The responsibility for compliance with the Regulations is that of the Board of Directors of the Company. Our responsibility is to review whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Regulations and report if it does not and to highlight any non-compliance with the requirements of the Regulations. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Regulations.

As a part of our audit of the financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Regulations require the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions and also ensure compliance with the requirements of section 208 of the Companies Act, 2017. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out procedures to assess and determine the Company's process for identification of related parties and that whether the related party transactions were undertaken at arm's length price or not.

Based on our review nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the Regulations as applicable to the Company for the year ended June 30, 2018.

Further, we highlight below instances of non-compliance with the requirements of the Regulations as reflected in the paragraph reference where these are stated in the Statement of Compliance:

Serial No.	Note Reference	Description
1	18	The CFO of the Modaraba does not hold the minimum qualification criteria as required by the Code of Corporate Governance.
2	19	The Chief Financial Officer and Company Secretary of the Modaraba is the same the person.

*Horwath Hussain Chaudhury*

Lahore  
Dated: October 02, 2018

**HORWATH HUSSAIN CHAUDHURY & CO.**  
Chartered Accountants



**AUDITORS' REPORT TO THE CERTIFICATE HOLDERS**

We have audited the annexed balance sheet of **First National Bank Modaraba** ("the Modaraba") as at June 30, 2018 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the Modaraba Company's (National Bank Modaraba Management Company Limited) responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining on a test basis; evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by the Modaraba Company, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of the Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981;
- b) in our opinion;
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in accordance with the accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2018 and of the loss, comprehensive loss, its cash flows and changes in equity for the year then ended; and
- d) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

We draw attention to Note 1.2 in the financial statements, which indicates that the Modaraba incurred a net loss of Rs 8.189 million during the year ended June 30, 2018, and as of that date the Modaraba's current liabilities exceeded its current assets by Rs. 122.871 million. As stated in Note 1.2, a material uncertainty exists that may cast significant doubt on the Modaraba's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

LAHORE

Dated: October 02, 2018

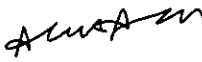
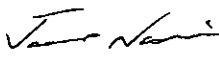


*Horwath Hussain Chaudhury & Co.*  
**HORWATH HUSSAIN CHAUDHURY & CO.**

Chartered Accountants  
 (Engagement Partner: Amin Ali)

**BALANCE SHEET**  
AS AT JUNE 30, 2018

	Note	2018 Rupees	2017 Rupees
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and bank balances	6	51,653,789	49,707,521
Short term murabaha investments - secured	7	16,308,001	19,216,842
Accrued profit	8	595,657	388,493
Short term investments	9	30,895,000	-
Ijarah rentals receivable	10	74,259,701	69,947,032
Advances, prepayments and other receivables	11	3,826,738	3,843,324
Current portion of non current assets	12	42,303,266	103,049,027
		219,842,152	246,152,239
<b>NON-CURRENT ASSETS</b>			
Net investment in ijarah finance	13	1,650,864	1,651,514
Diminishing musharaka financing - secured	14	1,977,113	10,497,347
Long term murabaha investments - secured	15	7,206,979	1,725,105
Long term loans and deposits	16	470,143	1,000,882
Intangible asset	17	-	-
Fixed assets under ijarah arrangements	18	124,871,458	247,443,653
Fixed assets - own use	19	47,612	7,732
Deferred tax asset	34	-	-
		136,224,169	262,326,233
<b>TOTAL ASSETS</b>		<b>356,066,321</b>	<b>508,478,472</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accrued profit		2,564,748	2,094,045
Deferred murabaha income	7	-	2,654,776
Short term finances - secured	20	217,063,388	201,634,754
Creditors, accrued and other liabilities	21	19,032,000	27,265,399
Current portion of non-current liabilities	22	104,053,372	195,897,100
		342,713,508	429,546,074
<b>NON-CURRENT LIABILITIES</b>			
Security deposits against ijarah assets	23	2,802,200	21,500,787
Long term finance - secured	24	-	16,666,670
Deferred murabaha income	25	2,406,131	24,431,871
		5,208,331	62,599,328
<b>TOTAL LIABILITIES</b>		<b>347,921,839</b>	<b>492,145,402</b>
<b>NET ASSETS</b>		<b>8,144,482</b>	<b>16,333,070</b>
<b>FINANCED BY:</b>			
Certificate capital	26	250,000,000	250,000,000
Statutory reserves	27	43,955,189	43,955,189
Accumulated loss		(285,810,707)	(277,622,119)
<b>CONTINGENCIES AND COMMITMENTS</b>	28	-	-
<b>TOTAL EQUITY AND RESERVES</b>		<b>8,144,482</b>	<b>16,333,070</b>

The annexed notes from 1 to 42 form an integral part of these financial statements.

Chief Executive Officer  
National Bank Modaraba  
Management Company Limited

Director  
National Bank Modaraba  
Management Company Limited

Director  
National Bank Modaraba  
Management Company Limited

Chief Financial Officer  
National Bank Modaraba  
Management Company Limited

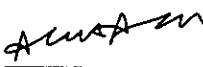
Lahore: October 02, 2018

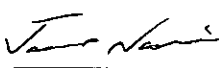
## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2018

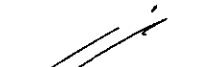
	Note	2018 Rupees	2017 Rupees
<b>INCOME FROM OPERATIONS</b>			
Ijarah rentals earned / income from ijarah finance		61,957,831	169,679,959
Profit on diminishing musharaka financing		1,962,269	4,269,226
Profit on murabaha investments		169,780	255,086
Profit on bank deposits		944,994	974,792
Gain on disposal of ijarah assets		936,127	4,525,381
Profit on short term investment		1,923,820	-
		67,894,821	179,704,444
<b>OTHER INCOME</b>			
Reversal of provision charged for doubtful receivables - net	32	8,055,717	-
Other income	29	79,929	97,018
		8,135,646	97,018
<b>TOTAL INCOME</b>		<b>76,030,467</b>	<b>179,801,462</b>
<b>EXPENSES</b>			
Depreciation on ijarah assets	18	(40,280,305)	(124,356,047)
Operating expenses	30	(15,551,096)	(15,175,035)
Finance cost	31	(15,986,550)	(23,700,399)
<b>TOTAL EXPENSES</b>		<b>(71,817,951)</b>	<b>(163,231,481)</b>
<b>Operating profit before provision and taxation</b>		<b>4,212,516</b>	<b>16,569,981</b>
Provision charged for doubtful receivables - net	32	-	(86,033,497)
Impairment loss on ijarah assets - net	18	(12,401,104)	(1,896,166)
		(8,188,588)	(71,359,682)
Modaraba Company's management fee	33	-	-
<b>Loss before Taxation</b>		<b>(8,188,588)</b>	<b>(71,359,682)</b>
Taxation	34	-	-
<b>Net Loss for the Year</b>		<b>(8,188,588)</b>	<b>(71,359,682)</b>
<b>LOSS PER CERTIFICATE - BASIC AND DILUTED</b>	35	<b>(0.33)</b>	<b>(2.85)</b>

The annexed notes from 1 to 42 form an integral part of these financial statements.

Lahore: October 02, 2018

  
Chief Executive Officer  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

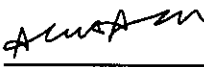
  
Chief Financial Officer  
National Bank Modaraba  
Management Company Limited

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED JUNE 30, 2018

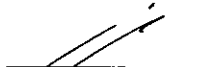
	2018 Rupees	2017 Rupees
Net Loss for the Year	(8,188,588)	(71,359,682)
Other comprehensive income / (loss) for the year	-	-
Total Comprehensive Loss for the Year	<u>(8,188,588)</u>	<u>(71,359,682)</u>


The annexed notes from 1 to 42 form an integral part of these financial statements.

Lahore: October 02, 2018

  
Chief Executive Officer  
National Bank Modaraba  
Management Company Limited

  
Director  
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Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

  
Chief Financial Officer  
National Bank Modaraba  
Management Company Limited

# **CASH FLOW STATEMENT** FOR THE YEAR ENDED JUNE 30, 2018


		2018 Rupees	2017 Rupees (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	36	55,563,832	225,190,278
Finance cost paid		(15,515,847)	(28,044,489)
Income taxes paid		(108,504)	(1,131,327)
Profit received on bank deposits		944,994	974,792
Long term loans and deposits - net		698,384	1,044,436
<b>Net Cash Generated from Operating Activities</b>		41,582,859	198,033,690
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed assets - own use acquired		(60,500)	-
Short term investments acquired		(30,895,000)	-
Proceeds from disposal of net investment in ijarah finance		19,023,150	-
Proceeds from disposal of ijarah assets		6,879,533	11,882,242
<b>Net Cash (Used in) / Generated from Investing Activities</b>		(5,052,817)	11,882,242
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Short term finances - net		15,428,634	(73,283,832)
Dividend paid to certificate holders		(12,406)	(1,440)
Long term finances - repaid		(50,000,002)	(101,666,667)
<b>Net Cash Used in Financing Activities</b>		(34,583,774)	(174,951,939)
<b>Net Increase in Cash and Cash Equivalents</b>		1,946,268	34,963,993
Cash and cash equivalents at the beginning of the year		49,707,521	14,743,528
<b>Cash and Cash Equivalents at the End of the Year</b>		51,653,789	49,707,521

The annexed notes from 1 to 42 form an integral part of these financial statements.

Lahore: October 02, 2018

  
Chief Executive Officer  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

  
Chief Financial Officer  
National Bank Modaraba  
Management Company Limited

**STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED JUNE 30, 2018


Particulars	Certificate Capital	Statutory Reserve	Accumulated Loss	Total Equity
	Rupees			
Balance as at June 30, 2016	250,000,000	43,955,189	(206,262,437)	87,692,752
Comprehensive loss for the year				
Net loss for the year	-	-	(71,359,682)	(71,359,682)
Other comprehensive loss for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(71,359,682)	(71,359,682)
Transferred to statutory reserve	-	-	-	-
Balance as at June 30, 2017	250,000,000	43,955,189	(277,622,119)	16,333,070
Comprehensive loss for the year				
Net loss for the year	-	-	(8,188,588)	(8,188,588)
Other comprehensive loss for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(8,188,588)	(8,188,588)
Transferred to statutory reserve	-	-	-	-
Balance as at June 30, 2018	250,000,000	43,955,189	(285,810,707)	8,144,482

The annexed notes from 1 to 42 form an integral part of these financial statements.

Lahore: October 02, 2018

  
Chief Executive Officer  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

  
Chief Financial Officer  
National Bank Modaraba  
Management Company Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

### LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 First National Bank Modaraba ("the Modaraba") is a multi-purpose, perpetual and multi-dimensional Modaraba formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Rules framed thereunder. The Modaraba is managed by National Bank Modaraba Management Company Limited (a wholly owned subsidiary of the National Bank of Pakistan (NBP)), incorporated in Pakistan under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017) and registered with the Registrar of Modaraba Companies. The registered office of the Modaraba is situated at Ground Floor, National Bank of Pakistan, Regional Headquarters Building, 26-Mc Lagon Road, Lahore.

The Modaraba is listed on Pakistan Stock Exchange Limited (PSX). It commenced its operations on December 4, 2003 and is currently engaged in various Islamic modes of financing and operations including ijarah, musharaka and murabaha arrangements.

### 1.2 Going concern assumption

During the year, the Modaraba made loss before 'Modaraba Company's Management Fee' of Rs. 8.179 million (2017: Rs. 71.360). As at the reporting date, its current liabilities exceed its current assets by Rs. 122.862 million (2017: Rs. 183.394 million) and accumulated losses amount to Rs. 285.801 million (2017: Rs. 277.622 million). In purview of consistent losses the Registrar Modaraba has issued a show cause notice to the Modaraba as to why should the proceedings to wind up the Modaraba not be initiated in terms of Section 23(1)(ii)(b) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. These factors indicate the existence of material uncertainties that cast significant doubts about the Modaraba's ability to continue as a going concern, and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Modaraba's management has carried out an assessment of the going concern status of the Modaraba and believes that the preparation of these financial statements on going concern assumption is appropriate based on the following factors:

- National Bank of Pakistan has resolved in its meeting of Board of Directors dated June 22, 2018 to review and reverse its earlier decision of the cessation of the business of the Modaraba and recapitalize the Modaraba by injecting Rs. 300 million against the issuance of 30 million certificates of Rs. 10 each to be issued by the Modaraba as other than 'Right Issue' subject to the approval of concerned regulators (the SECP and PSX). This resolution was made public through corporate announcement on PSX dated July 13, 2018.
- Current liabilities of the Modaraba requiring cash outflow primarily relate to its creditors and other accrued liabilities. As the security deposits obtained against ijarah arrangements are likely to be adjusted against the residual values of the ijarah assets and NBP is likely to extend its continued support in terms of renewing the short term borrowing facilities, the Modaraba is not foreseeing any liquidity pressure. It is pertinent to mention that the Modaraba does not have to pay any other banking company / financial institution except for the NBP.
- The management of the Modaraba is in correspondence with the SECP regarding the issuance of 30 million certificates to NBP against Rs. 300 million as other than right issue and the Board of Directors of the Modaraba Management Company in their meeting held dated October 2, 2017 have resolved to proceed in the same manner and deposit relevant fees with the SECP for enhancing the paid up Certificate Capital.
- The management has sufficiently provided against the doubtful portfolios of ijarah, murabaha and musharakah clients of the Modaraba and the remaining portfolio is adequately covered against collaterals held by the management; the management does not foresee any further heavy provision to be incorporated in the financial statements. Moreover, the management has filed suits and is in process of obtaining decretal orders from courts to dispose off the assets held by the Modaraba as collateral against its lendings.
- The management has prepared its business plan that would cater for modernizing the policies and procedures, revisiting the ijarah business for auto sector, introducing new islamic financial products, financing SMEs and raising finance from different sources.

**Basis of Preparation**

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**2.1 Statement of compliance**

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards ("IFRSs") and the Islamic Financial Accounting Standards (IFASs) as are notified under the provisions of the Companies Act, 2017 and made applicable to Modarabas under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980; and
- The requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Modaraba Companies and Modaraba Rules, 1981; prudential regulations and directives issued by the Securities and Exchange Commission of Pakistan (the Modaraba Regulations).

Wherever, the requirements of the Modaraba Regulations differ from the requirements of these standards, the requirements of the Modaraba Regulations take precedence.

**2.2 Accounting convention**

These financial statements have been prepared under the historical cost convention except for the measurement of certain financial instruments at fair value in accordance with the requirements of IAS-39 (Financial Instruments: Recognition and Measurement) and at the overall contract price in accordance with IFAS-1 (Murabaha).

**2.3 Functional and presentation currency**

These financial statements are presented in Pak Rupees which is Modaraba's functional and presentation currency. All financial information presented in Pak Rupees has been rounded off to the nearest rupee unless otherwise stated.

**Note 3****Use of Estimates and Judgments**

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The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under circumstances, results of which form the basis of making judgment about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by the management that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are as under:

**Ijarah assets and fixed assets in own use**

The Modaraba reviews the useful lives of fixed assets, both under own use and ijarah arrangements, on regular basis. Any change in the estimate in future years might affect the carrying amounts of the respective items of fixed assets with a corresponding effect on the depreciation charge and impairment, if any.



## Note 3, Use of Estimates and Judgments - Continued...

## Ijarah rentals, musharaka and murabaha investments

Ijarah rentals, diminishing musharaka financing and murabaha investments are stated net of provision against doubtful receivables. Provision is recognized for ijarah rentals receivable, diminishing musharaka financing and murabaha investments in accordance with the Prudential Regulations for the Modarabas issued by the SECP and on subjective evaluation by the management. Bad debts are written off when identified.

## Note 4

## Changes in Accounting Standards, Interpretations and Pronouncements

## 4.1 Standards, interpretations and amendments to approved accounting standards which became effective during the year

IAS 7, "Statement of Cash Flows" has introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

## 4.2 Standards, interpretation and amendments to approved accounting standards that are not yet effective

The following standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan and relevant to the Modaraba, would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation		Effective Date (Period beginning on or after)
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
IFRS 9	Financial Instruments: Classification and Measurement	July 1, 2018
IFRS 15	Revenue from Contracts with Customers	July 1, 2018
IFRS 16	Leases	January 1, 2019
IAS 23	Borrowing costs	January 1, 2019

The Modaraba expects that such improvements to the standards will not have any material impact on the Modaraba's financial statements in the period of initial application; except for IFRS 9.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after January 1, 2019.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

		Effective Date (Period beginning on or after)
-IFRS 14 'Regulatory Deferral Accounts'		January 1, 2016
-IFRS 17 'Insurance Contracts'		January 1, 2021

The Modaraba expects that such improvements to the standards will not have any material impact on the Modaraba's financial statements.

## Note 5

### Summary of Significant Accounting Policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless stated otherwise.

#### 5.1 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and balances with banks.

#### 5.2 Receivables

Receivables are due on normal trade terms. These are carried at original invoice amount less provision for doubtful debts, if any. Balances considered bad and irrecoverable are written off when identified.

#### 5.3 Murabaha investment

Murabaha investments are stated net of provision. Provision is recognized for Murabaha investments in accordance with the time based criteria of the Prudential Regulations for Modarabas issued by the SECP and subjective evaluation of management. Outstanding balances are written off when there is no realistic prospect of recovery.

Murabaha receivable are recorded by the Modaraba at the invoiced amount and disclosed as such in the balance sheet. Purchases and sales under murabaha and the resultant profit are accounted for on the culmination of murabaha transaction.

The profit on that portion of sales revenue not due for payment are deferred by accounting for a debit to "unearned murabaha income" account with the corresponding credit to "deferred murabaha income" account and shown in the balance sheet as a liability.

#### 5.4 Financial assets

Financial assets are classified into financial assets at fair value through profit or loss; loans and receivable; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction cost. The Modaraba determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets are de-recognized when the Modaraba loses control of the contractual rights that comprise the financial asset. The Modaraba loses such control if it realizes the rights to benefits specified in contract, the rights expire or the Modaraba surrenders those rights.

##### 5.4.1 Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'Financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gain or losses on investments held for trading are recognised in the profit and loss account.

##### 5.4.2 Held-to-maturity

Financial assets with fixed or determinable payments and fixed maturity, where the management has the intention and ability to hold till maturity, are classified as held to maturity and are stated at amortized cost.

##### 5.4.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than twelve months after the reporting date, which are classified as non-current assets. Loans and receivables comprise loans, deposits and other receivables in the balance sheet.

Note 5, 'Summary of Significant Accounting Policies - Continued...

**5.4.4 Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These are included in non-current assets unless the management intends to dispose off these assets within twelve months from the reporting date.

**5.5 Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities are secured deposits against ijarah (lease) assets, musharaka payable and other liabilities.

**5.6 Recognition and derecognition of financial instruments**

All financial assets and liabilities are recognized at the time when the Modaraba becomes a party to the contractual provisions of the instrument and are derecognized: in the case of asset, when the contractual rights under the instrument are derecognized, expired or surrendered; and in case of liability, when the obligation is discharged, cancelled or expired.

Any gain / (loss) on the recognition and derecognition of financial assets and liabilities is included in the profit / (loss) for the period in which it arises.

Assets and liabilities that are not of contractual nature and that are created as a result of statutory requirements are not financial instruments of the Modaraba.

**5.7 Offsetting of financial assets and financial liabilities**

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Modaraba has legally enforceable right to set off the recognized amount and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**5.8 Creditors, accrued and other liabilities**

Creditors, accrued and other liabilities are measured at cost which is the fair value of the consideration to be paid in future for goods and services received whether billed to the Modaraba or not.

**5.9 Diminishing musharaka financing**

Diminishing musharaka financing is stated net of provision. Provision is recognized in accordance with Prudential Regulations for Modarabas issued by the SECP or on the estimate of management, whichever is higher. Bad debts are written off when identified.

**5.10 Lease (ijarah) accounting**

The Modaraba provides assets to its clients under ijarah agreements as approved by the Religious Board. Ijarah arrangements up to June 30, 2008 have been recorded in the books of accounts as finance lease in line with IAS-17 (Leases) and arrangements beginning on or after July 1, 2008 have been recorded in the books of accounts under IFAS-2 (Ijarah).

Under the ijarah arrangements up to June 30, 2008, amount due from lessees under finance leases are recorded as receivables at the amount of the net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

As per the requirements of IFAS-2, the Modaraba has presented assets subject to ijarah in its balance sheet according to the nature of the asset, distinguished from the assets in own use. Income from ijarah is recognized on accrual basis, unless another systematic basis is more representative of the time pattern in which benefit of use derived from the leased asset is diminished. Costs, including depreciation, incurred in earning the ijarah income are recognized as an expense.

*Note 5, 'Summary of Significant Accounting Policies - Continued...*

Net investment in ijarah is stated at present value of minimum ijarah payments. Impairment losses on non-performing ijarah are recognized at higher of provision required in accordance with the Prudential Regulations for Modarabas or at a level which in the judgment of the management is adequate to provide for potential ijarah losses. These losses can be reasonably anticipated as the difference between the carrying amount of receivables and present value of expected cash flows discounted at the rates implicit in the ijarah agreement.

**5.11 Fixed assets****5.11.1 Fixed assets under ijarah arrangements**

Assets given to customers under ijarah arrangements on or after 01 July 2008 are accounted for as operating lease and are stated at cost less accumulated depreciation and impairment loss, if any. Assets under ijarah arrangements are depreciated using the straight line basis over the shorter of ijarah term or asset's useful life. In respect of additions and transfer during the year, depreciation is charged proportionately to the period of ijarah.

**5.11.2 Assets in own use - Tangible**

Tangible fixed assets are stated at cost less accumulated depreciation and impairment loss, if any. Cost in relation to the assets comprises acquisition and other directly attributable costs. Subsequent costs are included in assets' carrying amounts when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. Carrying amount of parts so replaced, if any, is derecognized. All other repairs and maintenance are charged to profit and loss as and when incurred. Gain / loss on disposals are carried to the profit and loss account in the year of disposal.

Depreciation is charged to profit and loss using the straight line method at the rates as specified in note 15 to these financial statements so as to write off the cost of assets over their estimated useful lives without taking into account any residual value. Depreciation on additions to the tangible fixed assets is charged from the month in which an asset is available for use while no depreciation is charged for the month in which the asset is disposed off.

Carrying amounts of the Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated and impairment loss is recognized in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the initial cost of the asset. A reversal of the impairment loss is recognized as income in the profit and loss account.

**5.11.3 Assets in own use - Intangible**

Expenditure incurred on intangible asset is capitalized and stated at cost less accumulated amortization and any identified impairment loss. Intangible asset is amortized on straight line basis over a period of three years.

**5.12 Provisions**

Provisions are recognized when the Modaraba has a present, legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Future operating losses are not provided for.

**5.13 Borrowing costs**

Borrowing costs on long term finances are capitalized up to the date of commissioning of respective qualifying assets acquired out of the proceeds of such long term finances. All other borrowing costs are recognized in profit and loss account.

## Note 5, 'Summary of Significant Accounting Policies - Continued...

**5.14 Revenue recognition**

For lease (ijarah) agreements executed on or before June 30, 2008, the unearned finance income is deferred and amortized to income over the term of ijarah, applying the annuity method to produce a constant rate of return on net investment in ijarah. Unrealized ijarah income on potential lease losses is excluded from the income from ijarah operations in accordance with the requirements of the Prudential Regulations for Modaraba issued by the SECP.

For lease (ijarah) agreements executed on or after July 1, 2008 lease rentals are recognized as income on accrual basis, as and when the rental becomes due over the ijarah period.

The deferred murabaha income i.e. the excess of aggregate murabaha instalments over the cost of the asset under murabaha investment is deferred and then amortized over the term of the murabaha, so as to produce a constant rate of return on murabaha investment. Documentation charges, front-end fee and other murabaha income are recognized as income on receipt basis.

Return on deposits with banks is recognized on time proportionate basis.

Profit on diminishing musharaka financing is recognized under the effective mark up rate method based on the amount outstanding.

Income from fee and commission is recognized as and when it becomes due.

**5.15 Taxation****5.15.1 Current**

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits available, rebates and exemptions, if any. Under clause 100 of Part - I of Second Schedule to the Income Tax Ordinance 2001, the income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are distributed to the certificate holders.

**5.15.1 Deferred**

Deferred tax is provided, using the balance sheet method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilized.

**5.16 Profit distribution**

Profit distribution to certificate holders is recognized as a liability in the period in which such distribution is announced.

**5.17 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (the Chief Executive Officer of the Modaraba). Segment results, assets and liabilities include items directly attributable to a segment. Segment capital expenditure is the total cost incurred during the year to acquire fixed assets and intangible assets.

**5.18 Dividend**

Dividends are recognized as a liability in the period in which these are declared.

Note 5, 'Summary of Significant Accounting Policies - Continued...

5.19 Contingent liabilities

Contingent liability is disclosed when there is a possible obligation that arises from past events and whose existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Modaraba.

A contingent liability is also disclosed when there is a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits would be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

5.20 Related party transactions

Transactions in relation to business activities with related parties are made at arm's length prices determined in accordance with the Modaraba's policy.

Note 6

Cash and Bank Balances

	Note	2018 Rupees	2017 Rupees
Cash in hand		19,541	-
Current accounts			
Associated undertaking - National Bank of Pakistan		152,035	270,647
Others		725,066	48,041
		877,101	318,688
Saving accounts	6.1		
Associated undertaking - National Bank of Pakistan		232,725	25,291
Others		50,524,422	49,363,542
		50,757,147	49,388,833
		51,653,789	49,707,521

6.1 These carry mark up at the rate of 2.61% to 3.75% (2017: 2.70% to 3.50%) per annum.

Note 7

Short Term Murabaha Investments - Secured

	Note	2018 Rupees	2017 Rupees
Considered good		-	-
Considered doubtful		243,770,960	244,025,025
		243,770,960	244,025,025
Add: Deferred murabaha income		2,654,776	2,654,776
		246,425,736	246,679,801
Less: Provision for non-performing murabaha investments	7.2	(227,462,959)	(227,462,959)
Less: Suspended income		(2,654,776)	
		16,308,001	19,216,842

7.1 These represent investments under murabaha arrangements on deferred payment basis at specified profit margins. These investments carry profit ranging from 10.36% to 15.54% (2017: 10.36% to 15.54%) per annum and are secured against charge over fixed and current assets, personal guarantees of directors of customer companies, registered and equitable mortgage of properties, demand promissory notes and post dated cheques varying from case to case.

7.2 Provision for non-performing murabaha investments

Opening balance	227,462,959	177,046,511
Charged during the year	-	50,416,448
Reversed during the year	-	-
Net charged during the year	-	50,416,448
Closing balance	227,462,959	227,462,959

## Note 8

## Accrued Profit

	Note	2018 Rupees	2017 Rupees
Profit on diminishing musharaka receivable	8.1	561,471	388,493
Profit on sukuk investments		34,186	-
		<u>595,657</u>	<u>388,493</u>

## Note 8, 'Accrued Profit - Continued...

	Note	2018 Rupees	2017 Rupees
<b>8.1 Profit held in suspense</b>			
Profit receivable on musharaka finances		1,404,566	1,094,139
Suspended income	8.1.1	(843,095)	(705,646)
		<u>561,471</u>	<u>388,493</u>
<b>8.1.1 Suspended income account against diminishing musharaka profit receivable is as follows:</b>			
Opening balance		705,646	593,321
Suspended during the year		137,449	112,325
		<u>843,095</u>	<u>705,646</u>

## Note 9

## Short Term Investments

	2018 Number	2017 Number	2018 Rupees	2017 Rupees
<b>Investments in sukuk of Rs 100,000 each - available for sale</b>				
200 - Neelum Jehlum Sukuk			20,895,000	-
100 - Byco Petroleum Pakistan Limited			10,000,000	-
300 -			<u>30,895,000</u>	<u>-</u>

## Note 10

## Ijarah Rentals Receivable

	Note	2018 Rupees	2017 Rupees
Considered good - secured		13,639,189	12,028,297
Considered doubtful		108,642,488	99,593,682
Less: Provision for doubtful ijarah rentals receivable	10.1	(25,303,438)	(20,363,489)
Less: Profit held in suspense account	10.2	(22,718,538)	(21,311,458)
		<u>60,620,512</u>	<u>57,918,735</u>
		<u>74,259,701</u>	<u>69,947,032</u>
<b>10.1 Provision for doubtful ijarah rentals receivable</b>			
Opening balance		20,363,489	13,622,056
Charged during the year		3,001,740	7,318,597
Adjustment / reclassified from suspended profit		1,938,209	-
Written off during the year		-	(577,164)
Net charged during the year		<u>4,939,949</u>	<u>6,741,433</u>
Closing balance		<u>25,303,438</u>	<u>20,363,489</u>

10.2 Profit held in suspense accounts

Opening balance	21,311,458	17,108,267
Income suspended during the year	4,122,976	7,207,092
Adjustment / reclassified to provision	(1,938,209)	-
Suspended income received	(777,687)	(3,003,901)
Net charged during the year	1,407,080	4,203,191
Closing balance	22,718,538	21,311,458

Note 11

Advances, Prepayments and Other Receivables

		2018	2017
	Note	Rupees	Rupees
Advances to employees for expenses (unsecured - considered good)		12,530	12,530
Income tax deducted at source		2,407,630	2,299,126
Prepayments		193,749	27,880
Profit receivable on sukuks		502,340	-
Other receivables	11.1	710,489	1,503,788
		3,826,738	3,843,324
11.1 Other receivables			
Considered good		710,489	1,503,788
Considered doubtful		29,680,817	29,244,256
Provision against doubtful other receivables	11.2	30,391,306	30,748,044
		(29,680,817)	(29,244,256)
		710,489	1,503,788
11.2 Provision against doubtful other receivables			
Opening balance		29,244,256	28,368,640
Charged during the year		436,561	875,616
Reversed during the year		-	-
Net charged during the year		436,561	875,616
Closing balance		29,680,817	29,244,256

Note 12

Current Portion of Non Current Assets

		2018	2017
	Note	Rupees	Rupees
Net investment in ijarah finance	13	15,579,850	31,270,867
Diminishing musharaka financing	14	20,417,303	26,098,927
Long term murabaha investments	15	5,878,259	45,083,734
Long term loans and deposits	16	427,854	595,499
		42,303,266	103,049,027



## Note 13

## Net Investment in Ijarah Finance

Net Investment in Ijarah Finance	2018			2017		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
Rupees						
Minimum ijarah rentals receivable	45,655,427	5,185,554	50,840,981	62,161,137	17,185,554	79,346,691
Residual value of ijarah assets	2,221,514	46,700	2,268,214	5,088,181	46,700	5,134,881
Gross investment in ijarah finance	47,876,941	5,232,254	53,109,195	67,249,318	17,232,254	84,481,572
Less: Unearned finance income	(20,583,357)	(3,581,390)	(24,164,747)	(13,071,599)	(15,580,740)	(28,652,339)
Net investment in lease ijarah finance	27,293,584	1,650,864	28,944,448	54,177,719	1,651,514	55,829,233
Less: Provision for doubtful net investment in ijarah finance (Note 13.2)	(11,713,734)	-	(11,713,734)	(22,906,852)	-	(22,906,852)
	15,579,850	1,650,864	17,230,714	31,270,867	1,651,514	32,922,381
Less: Current portion (Note 12)			(15,579,850)			(31,270,867)
			1,650,864			1,651,514

13.1 The Modaraba entered into various ijarah agreements for periods spanning 8 to 14 years (2017: 8 to 14 years). Security deposits ranging from 0.1% to 10% (2017: 0.1% to 10%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.76% to 11.97% (2017: 7.86% to 11.19%) per annum.

## 13.2 Provision for doubtful net investment in ijarah finance

	2018 Rupees	2017 Rupees
Opening balance	22,906,852	22,906,852
Charged during the year	-	-
Reversed during the year	(11,193,118)	-
Net charged during the year	(11,193,118)	-
Closing balance	11,713,734	22,906,852

Note 14

Diminishing Musharaka Financing - Secured

	Note	2018 Rupees	2017 Rupees
Considered good		18,056,782	32,258,640
Considered doubtful		4,337,634	4,337,634
Provision against doubtful diminishing musharaka	14.2	-	-
		4,337,634	4,337,634
		22,394,416	36,596,274
Less: Current portion	12	(20,417,303)	(26,098,927)
		1,977,113	10,497,347

14.1 This represents diminishing musharaka financing arrangement entered for a term of three to four years. The Modaraba has provided financing to the extent of 23.69% to 90% of the value of musharaka assets. This financing is secured by first charge on all present and future fixed assets of the client, personal guarantee of directors, registered and equitable mortgage on properties, post dated cheques and joint ownership of musharaka assets. These carry profit at rates ranging between 9.35% to 14.02% (2017: 9.35% to 14.02%) per annum and are repayable on monthly basis.

14.2 The provision against doubtful diminishing musharaka financing has not been incorporated as the forced sale value of collaterally held assets is greater than the amount receivable from the respective parties.

Note 15

Long Term Murabaha Investments - Secured

	Note	2018 Rupees	2017 Rupees
Considered good		10,559,988	14,895,252
Considered doubtful		69,301,582	69,602,515
		79,861,570	84,497,767
Add: Deferred murabaha income	25	31,913,554	31,913,554
	15.1	111,775,124	116,411,321
Less: Provision for doubtful murabaha investments	15.2	(69,301,582)	(69,602,482)
Less: Suspension for doubtful murabaha investments		(29,388,304)	-
		13,085,238	46,808,839
Less: Current portion	12 & 15.3	(5,878,259)	(45,083,734)
		7,206,979	1,725,105
15.1	These represent investments under murabaha arrangements on deferred payment basis at a profit margin ranging from 9.38% to 15.50% (2017: 9.38% to 15.50%) per annum. These investments are secured against charge over fixed and current assets, registered and equitable mortgage of properties, personal guarantees of the directors of customer companies, demand promissory notes and post-dated cheques varying from case to case.		
15.2	Provision for doubtful murabaha investments		
		69,602,482	41,602,482
Opening balance		-	28,000,000
Charged during the year		(300,900)	-
Reversed during the year		(300,900)	28,000,000
Net charged during the year		69,301,582	69,602,482
Closing balance			
15.3	Current portion of long term murabaha investments		
		2018	2017
		Rupees	Rupees
Murabaha investments	25	5,759,140	37,602,051
Deferred murabaha income		119,119	7,481,683
		5,878,259	45,083,734

Note 16

Long Term Loans and Deposits

	Note	2018 Rupees	2017 Rupees
Long term loans to employees	16.1	858,497	1,556,881
Security deposits		39,500	39,500
		897,997	1,596,381
Less: Current portion	12	(427,854)	(595,499)
		470,143	1,000,882

16.1 These loans are given to employees of the Modaraba for purchase of vehicles and carry profit at 5% (2017: 5%) per annum. Maximum aggregate balance due from employees at the end of any month during the year was Rs. 1,556,881 (2017: Rs. 2,513,652). As a security, vehicles are registered in the name of the Modaraba.

Note 17  
Intangible Asset

	2018	2017
	Rupees	Rupees
Cost	1,131,300	1,131,300
Accumulated amortization	(1,131,300)	(1,131,300)
Net book value	-	-

17.1 This represents ERP software, as at the reporting date, the intangible asset is fully amortized but still in use of the Modaraba.

Note 18

Fixed Assets under Ijarah Arrangements

Description	Plant and machinery	Vehicles	Total
-----Rupees-----			
<b>Year Ended June 30, 2018</b>			
<b>Cost</b>			
Balance as at July 01, 2017	409,943,673	454,424,819	864,368,492
Additions	-	-	-
Disposals	(64,845,477)	(193,234,385)	(258,079,862)
Balance as at June 30, 2018	345,098,196	261,190,434	606,288,630
<b>Accumulated depreciation</b>			
Balance as at July 01, 2017	326,352,152	283,702,432	610,054,584
Charge for the year	23,642,346	16,637,959	40,280,305
Disposals	(56,324,124)	(131,864,952)	(188,189,076)
Balance as at June 30, 2018	293,670,374	168,475,439	462,145,813
<b>Accumulated Impairment Loss</b>			
Balance as at July 01, 2017	4,705,513	2,164,742	6,870,255
Impairment charged / (reversed)	12,401,104	-	12,401,104
Balance as at June 30, 2018	17,106,617	2,164,742	19,271,359
<b>Total as at June 30, 2018</b>	<b>34,321,205</b>	<b>90,550,253</b>	<b>124,871,458</b>
<b>Year Ended June 30, 2017</b>			
<b>Cost</b>			
Balance as at July 01, 2016	588,927,510	656,920,439	1,245,847,949
Additions	-	-	-
Disposals	(178,983,837)	(202,495,620)	(381,479,457)
Balance as at June 30, 2017	409,943,673	454,424,819	864,368,492
<b>Accumulated depreciation</b>			
Balance as at July 01, 2016	410,704,101	363,976,083	774,680,184
Charge for the year	53,618,261	70,737,786	124,356,047
Disposals	(137,970,210)	(151,011,437)	(288,981,647)
Balance as at June 30, 2017	326,352,152	283,702,432	610,054,584
<b>Accumulated Impairment Loss</b>			
Balance as at July 01, 2016	1,502,302	3,471,787	4,974,089
Impairment charged / (reversed)	3,203,211	(1,307,045)	1,896,166
Balance as at June 30, 2017	4,705,513	2,164,742	6,870,255
<b>Total as at June 30, 2017</b>	<b>78,886,008</b>	<b>168,557,645</b>	<b>247,443,653</b>

**18.1 General description of significant ijarah arrangements (IFAS-2)**

The Modaraba has entered into various ijarah agreements for periods ranging from 3 to 11 years (2017: 3 to 11 years). Security deposits ranging from 0% to 71% (2016: 5% to 73%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.17% to 14.46% (2017: 9.46% to 14.46%) per annum.

**18.2 Aggregate amount of future ijarah rentals receivable on the basis of ijarah arrangements executed upto the reporting date are as follows:**

	2018 Rupees	2017 Rupees
<b>Future Ijarah Rental Receivables</b>		
Not later than one year	14,325,771	36,967,708
Later than one year but not later than five years	122,541,459	160,949,631
Later than five years	136,867,230	197,917,339

**Note 19**

**Fixed Assets under Own Use**

Description	Vehicle	Computers and accessories	Electrical Equipment	Total
-----Rupees-----				
<b>Year Ended June 30, 2018</b>				
<b>Cost</b>				
Balance as at July 01, 2017	1,351,182	1,804,058	434,664	3,589,904
Additions	39,000	21,500	-	60,500
Disposals	-	-	-	-
Balance as at June 30, 2018	1,390,182	1,825,558	434,664	3,650,404
<b>Accumulated depreciation</b>				
Balance as at July 01, 2017	1,351,182	1,796,326	434,664	3,582,172
Charge for the year	7,800	12,820	-	20,620
Disposals	-	-	-	-
Balance as at June 30, 2018	1,358,982	1,809,146	434,664	3,602,792
<b>Total as at June 30, 2018</b>	<b>31,200</b>	<b>16,412</b>	<b>-</b>	<b>47,612</b>
<b>Year Ended June 30, 2017</b>				
<b>Cost</b>				
Balance as at July 01, 2016	1,351,182	1,804,058	434,664	3,589,904
Additions	-	-	-	-
Disposals	-	-	-	-
Balance as at June 30, 2017	1,351,182	1,804,058	434,664	3,589,904
<b>Accumulated depreciation</b>				
Balance as at July 01, 2016	1,342,962	1,722,144	432,967	3,498,073
Charge for the year	8,220	74,182	1,697	84,099
Disposals	-	-	-	-
Balance as at June 30, 2017	1,351,182	1,796,326	434,664	3,582,172
<b>Total as at June 30, 2017</b>	<b>-</b>	<b>7,732</b>	<b>-</b>	<b>7,732</b>
<b>Annual rate of depreciation</b>	<b>20 %</b>	<b>33.33 %</b>	<b>20 - 33.33 %</b>	

19.1 These contain fully depreciated assets of Rs. 3,589,904 (2017: Rs. 3,241,823) that are still in use by the Modaraba.

**Note 20**

**Short Term Finance - Secured**

	Note	2018 Rupees	2017 Rupees
<b>From banking companies</b>			
Running finance	20.1	217,063,388	201,634,754

20.1 The Modaraba has obtained running finance facility of Rs. 250 million (2017: Rs. 250 million) from the National Bank of Pakistan carrying mark-up / profit at 1 month KIBOR plus 1% (2017: 1 month to 6 months KIBOR plus 1%) per annum payable monthly. The effective mark-up / profit rate charged during the year ranged from 6.76% to 6.36% (2017: 6.22% to 6.29) per annum. This facility is secured by way of first joint pari passu hypothecation charge on all present and future receivables, leased assets and related lease receivables and present and future assets of the Modaraba to the extent of Rs 277.778 million (2017: Rs 277.778 million). This facility expired on March 31, 2018 and has yet not been renewed as at the reporting date.

## Note 21

## Creditors, Accrued and Other Liabilities

		2018	2017
	Note	Rupees	Rupees
Advances from customers		17,679,335	25,725,887
Accrued expenses		494,700	433,780
Withholding tax payable		5,000	-
Unclaimed profit distribution	21.1	425,218	437,624
Charity and other payable	21.2	427,747	668,108
		<u>19,032,000</u>	<u>27,265,399</u>
<b>21.1 Reconciliation of unclaimed dividends</b>			
Opening balance		437,624	439,064
Dividend accrued / (paid)		(12,406)	(1,440)
Closing balance		<u>425,218</u>	<u>437,624</u>

21.2 It includes charity payable amounting to Rs. 350,714 (2017: Rs. 591,075).

## Note 22

## Current Portion of Non-Current Liabilities

		2018	2017
	Note	Rupees	Rupees
Security deposits against ijarah assets	23	103,934,253	155,082,085
Long term finances - secured	24	-	33,333,332
Deferred murabaha income	25	119,119	7,481,683
		<u>104,053,372</u>	<u>195,897,100</u>

## Note 23

## Security Deposits against Ijarah Assets

		2018	2017
	Note	Rupees	Rupees
Security deposits against ijarah assets		106,736,453	176,582,872
Less: Current portion	22	(103,934,253)	(155,082,085)
		<u>2,802,200</u>	<u>21,500,787</u>

## Note 24

## Long Term Finance - Secured

		2018	2017
	Note	Rupees	Rupees
<b>From banking companies - secured</b>			
National Bank of Pakistan - associated undertaking	24.1	-	50,000,002
Less: Current portion	22	-	(33,333,332)
		<u>-</u>	<u>16,666,670</u>

24.1 This demand finance facility of Rs. 200 million was obtained to finance operations of the Modaraba and was repayable in 12 equal quarterly instalments. This carried mark-up @ 3 months KIBOR plus 2.00% per annum payable quarterly. The effective mark-up rate charged during the year ranged from 7.64% to 8.00% (2017: 7.45% to 7.85%) per annum. The facility was secured by way of first joint pari passu hypothecation charge over all present and future leased assets and related lease receivables of the Modaraba to the extent of Rs 222.222 million. The entire loan has been repaid during the year.

## Note 25

## Deferred Murabaha Income

		2018	2017
	Note	Rupees	Rupees
Long term deferred murabaha income	15	31,913,554	31,913,554
Suspended income		(29,388,304)	-
Net of suspension		2,525,250	31,913,554
Less: Current portion	22	(119,119)	(7,481,683)
		<u>2,406,131</u>	<u>24,431,871</u>

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Note 26

## Certificate Capital

	2018	2017		2018	2017
	Number of certificates			Rupees	Rupees
Authorized:					
	<u>60,000,000</u>	<u>60,000,000</u>	Modaraba certificates of Rupees 10 each	<u>600,000,000</u>	<u>600,000,000</u>
Issued, subscribed and paid-up certificate capital					
	<u>25,000,000</u>	<u>25,000,000</u>	Modaraba certificates of Rupees 10 each	<u>250,000,000</u>	<u>250,000,000</u>

26.1 7,500,000 (2017: 7,500,000) certificates of the Modaraba are held by National Bank Modaraba Management Company Limited, the modaraba management company.

26.2 No certificates of the Modaraba have been issued / cancelled during the year.

Note 27

## Statutory Reserves

Statutory reserves represent profits set aside in compliance with the requirements of prudential regulations for Modarabas issued by the SECP. These regulations require the Modarabas to transfer at least 20% after tax profit, if any, upto a maximum of 50%, in statutory reserves until the reserves equal 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred into the statutory reserves each year. During the year no amount (2017: Rs. Nil) is transferred in the statutory reserves.

Note 28

## Contingencies and Commitments

28.1 Commissioner Inland Revenue (Appeals) raised demand of tax payables of Rs. 333.26 million for tax year 2011. Appeal filed before the Commissioner Appeals Inland Revenue. The demand is deleted. The department has filed an appeal against the order of the Commissioner Appeals before the Appellate Tribunal. The notice of hearing is awaited from the Tribunal.

28.2 Commissioner Inland Revenue (Appeals) raised demand of tax payables of Rs. 127.362 million for tax year 2014. Appeal filed before the Commissioner Appeals Inland Revenue. The demand is deleted. The department has filed an appeal against the order of the Commissioner Appeals before the Appellate Tribunal. The notice of hearing is awaited from the Tribunal.

Note 29

## Other Income

	2018	2017
	Rupees	Rupees
Service charges	71,429	97,018
Documentation charges	8,500	-
	79,929	97,018

Note 30

## Operating Expenses

		2018	2017
	Note	Rupees	Rupees
Salaries, allowances and other benefits	30.1	11,291,000	10,968,204
Communication		233,515	275,695
Travelling and conveyance		50,577	313,264
Vehicles' running expenses		128,362	129,469
Postage and stamps		34,193	39,928
Advertisement		138,641	104,670
Legal and professional		1,035,736	947,941
Auditors' remuneration	30.2	350,000	546,830
Fees and subscription		987,867	681,903
Repairs and maintenance		400,862	280,552
Insurance		101,186	99,307
Stationery and printing		349,790	348,183
Entertainment		275,456	249,886
Depreciation on fixed assets - own use	19	20,620	84,099
Other sundry expenses		153,291	105,104
		15,551,096	15,175,035

### 30.1 Salaries, allowances and other benefits

The aggregate amounts charged for remuneration including all benefits to officers and employees of the Modaraba are as under:

	2018			2017		
	Officers	Employees	Total	Officers	Employees	Total
	-----Rupees-----					
Salary	2,816,976	2,466,744	5,283,720	2,380,131	2,557,252	4,937,383
House rent	1,408,500	957,199	2,365,699	1,045,837	1,132,620	2,178,457
Utilities	338,052	229,734	567,786	251,001	271,813	522,814
Bonus	570,675	435,567	1,006,242	482,319	520,389	1,002,708
Others	902,355	1,165,198	2,067,553	770,350	1,556,492	2,326,842
	<u>6,036,558</u>	<u>5,254,442</u>	<u>11,291,000</u>	<u>4,929,638</u>	<u>6,038,566</u>	<u>10,968,204</u>
Number of persons	<u>4</u>	<u>9</u>	<u>13</u>	<u>3</u>	<u>8</u>	<u>11</u>

30.1.1 Average number of employees during the year was 13 (2017: 12). All employees are on contract.

30.1.2 All employees are entitled for reimbursement of fuel expenses upto certain limits

### 30.2 Auditors' remuneration

Audit fee	253,200	302,500
Half yearly review fee	96,800	96,800
Certifications	-	97,600
Out of pocket expenses	-	49,930
	<u>350,000</u>	<u>546,830</u>

30.3 Office space, utilities and related expenditure are borne by National Bank Modaraba Management Company Limited, Modaraba management company.

### Note 31

#### Finance Cost

	2018	2017
	Rupees	Rupees
Short term finances	13,464,322	15,879,672
Long term finances	2,473,735	7,684,799
Bank and other charges	48,493	135,928
	<u>15,986,550</u>	<u>23,700,399</u>

### Note 32

#### Provision for Doubtful Receivables

	Note	2018	2017
		Rupees	Rupees
Opening balance		369,580,038	283,546,541
Add: Charged during the year		3,438,301	86,610,661
Add: Reclassified from suspended profit on ijarah		1,938,209	-
Less: Reversed during the year		(11,494,018)	(577,164)
Net provision charged during the year	32.1	(6,117,508)	86,033,497
Closing balance		<u>363,462,530</u>	<u>369,580,038</u>

32.1 This includes provision of Rupees Nil million (2017: 39.074 million) recognized during the year on the basis of subjective evaluation of non-performing short term murabaha investments, ijarah rentals receivable and long term murabaha investments. The break-up is as under:

	Note	2018 Rupees	2017 Rupees
32.1.1	Short term murabaha investments	-	18,473,740
	Ijarah rentals receivable	-	3,100,000
	Long term murabaha investments	-	17,500,000
		<u>-</u>	<u>39,073,740</u>
32.2	<b>Break up of closing balance</b>		
	Provision against doubtful murabaha investments	7.3 & 15.2 296,764,541	297,065,441
	Provision for doubtful ijarah rental receivables	10.1 25,303,438	20,363,489
	Provision against doubtful other receivables	11.2 29,680,817	29,244,256
	Provision for doubtful net investment in ijarah finance	13.2 11,713,734	22,906,852
		<u>363,462,530</u>	<u>369,580,038</u>

Note 33

**Modaraba Management Company Fee**

In accordance with Section 18 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, management fee @ 10% of annual profits is paid to the modaraba management company. Owing to the loss during the year, the modaraba management company's fee has not been provided for.

Note 34

**Taxation**

34.1 No provision for current tax is recognized as the Modaraba has brought forward tax losses of Rs. 177.298 million (2017: Rs 256.973 million). Further, provision of minimum tax is not applicable to the Modaraba as per sub clause (xiii) of clause 11A of part IV of second schedule to the Income Tax Ordinance, 2001.

34.2	Deferred tax asset	2018 Rupees	2017 Rupees
	Deferred tax asset has originated relating to the following:		
	Accelerated tax depreciation	46,095,831	43,448,578
	Carry forward tax losses	44,324,533	64,243,310
		<u>90,420,364</u>	<u>107,691,888</u>
	Less: Deferred tax asset not recognized	<u>(90,420,364)</u>	<u>(107,691,888)</u>
		<u>-</u>	<u>-</u>

34.2.1 The deferred tax asset of Rs. 90.420 million (2017: Rs. 107.692 million) has not been recognized in these financial statements as the temporary differences are not expected to reverse in foreseeable future because taxable profits may not be available against which the temporary differences can be utilized.

Note 35

**Loss Per Certificate - Basic and Diluted**

		2018 Rupees	2017 Rupees
Loss attributable to ordinary certificates holders	Rupees	<u>(8,188,588)</u>	<u>(71,359,682)</u>
Weighted average number of ordinary certificates outstanding during the year	Numbers	<u>25,000,000</u>	<u>25,000,000</u>
Loss per certificate	Rupees	<u>(0.33)</u>	<u>(2.85)</u>

35.1 Basic earnings per modaraba certificate have been computed by dividing loss for the year as stated above with weighted average number of Modaraba certificates.

35.2 There is no dilution in loss per certificate as the Modaraba has not issued any instrument which would have an impact on its loss per certificate.



## Note 36

## Cash Generated from Operations

	2018 Rupees	2017 Rupees (Restated)
Net loss for the Year	(8,188,588)	(71,359,682)
Adjustment for:		
- Depreciation on fixed assets under own use	20,620	84,099
- Depreciation on fixed assets under ijarah arrangements	40,280,305	124,356,047
- Impairment on fixed Assets under ijarah arrangements	12,401,104	1,896,166
- Gain on termination of ijarah arrangements	(936,127)	(4,525,381)
- Profit on short term investments	(1,923,820)	-
- Charge of provision against short term murabaha investment - net	-	50,416,448
- Charge of provision against doubtful ijarah rentals receivable - net	4,939,949	6,741,433
- Charge of suspense income against ijarah rentals receivable - net	1,407,080	4,203,191
- Charge of provision against doubtful other receivables - net	436,561	875,616
- Reversal of provision against net investment in ijarah finance - net	(11,193,118)	-
- (Reversal) / charge of provision long term murabaha investments - net	(300,900)	28,000,000
- Finance Cost	15,986,550	23,700,399
- Profit on term deposit receipts and bank deposits	(944,994)	(974,792)
	60,173,210	234,773,226
Operating profit before working capital changes	51,984,622	163,413,544
Decrease / (Increase) in operating assets:		
- Accrued profit	1,716,656	98,690
- Ijarah rentals receivable	(10,659,698)	926,138
- Advances, prepayments and other receivables	(311,471)	(982,823)
- Short term murabaha investments	2,908,841	28,100,003
- Net investment in ijarah finance	1,962,596	601,181
- Diminishing musharaka financing	14,201,858	20,074,614
- Long term murabaha investments	1,981,421	9,389,069
Increase / (Decrease) in operating liabilities:		
- Creditors, accrued and other liabilities	(8,220,993)	3,569,862
Net changes in working capital	3,579,210	61,776,734
Cash Generated from Operations	55,563,832	225,190,278

Note 36, Cash Generated from Operations - Continued...

## 36.1 Liabilities Arising from Financing Activities

	As at June 30, 2017	Non-cash changes	Cash flows (Net)	As at June 30, 2018
			Rupees	
Short term borrowings	201,634,754	-	15,428,634	217,063,388
Long term finance - secured	50,000,002	-	(50,000,002)	-
	251,634,756	-	(34,571,368)	217,063,388

## Note 37

## Financial Risk Management

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors of the management company has overall responsibility for the establishment and oversight of the Modaraba's risk management framework.

37.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss to the Modaraba by failing to discharge an obligation. The risk is generally limited to principal amounts and accrued profit thereon, if any. The Modaraba's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the Prudential Regulations. The carrying amounts of the following financial assets represents the maximum credit exposure at the reporting date:

Financial assets	2018	2017
	Rupees	Rupees
Bank balances	51,634,248	49,707,521
Ijarah rentals receivable	74,259,701	69,947,032
Advances, prepayments and other receivables	1,212,829	1,503,788
Accrued profit	595,657	388,493
Murabaha investments - net of provision	29,393,239	31,457,351
Net investment in ijarah finance	17,230,714	32,922,381
Diminishing musharaka financing	22,394,416	36,596,274
Short term investments	30,895,000	-
Long term loans and deposits	897,997	1,596,381
	<u>228,513,801</u>	<u>224,119,221</u>

37.1.1 Credit quality of banks

The credit quality of the Modaraba's bank balances can be assessed with reference to external credit ratings is as follows:

	Rating			2018	2017
	Short term	Long term	Agency	Rupees	Rupees
National Bank of Pakistan	A1+	AAA	PACRA	384,760	295,939
Al Baraka Bank (Pakistan) Ltd.	A1	A	PACRA	14,914	252,945
Bank Alfalah Ltd.	A1+	AA+	PACRA	709,206	4,964
First Women Bank Ltd.	A2	A-	PACRA	4,725	4,760
Habib Bank Limited	A1+	AAA	JCR-VIS	11,011	-
The Bank of Punjab	A1+	AA	PACRA	-	38,052
Bank Islami Pakistan Ltd.	A1	A+	PACRA	50,509,632	49,110,860
MCB Bank Ltd.	A1+	AAA	PACRA	-	1
				<u>51,634,248</u>	<u>49,707,521</u>

37.1.2 Description of collateral held

The Modaraba's ijarah arrangements (leases) are secured against ijarah assets, demand promissory notes, post dated cheques and personal guarantees varying from case to case. In a few arrangements additional collateral is also obtained in the form of charge on fixed assets. Murabaha investments are secured against charge over fixed and current assets, registered and equitable mortgage of properties, personal guarantees of directors of customer companies, demand promissory notes and post dated cheques varying from case to case. Diminishing musharaka financings are secured by first charge on all present and future fixed assets of the client, registered and equitable mortgage on properties, personal guarantee of directors, post dated cheques and joint ownership of musharaka assets varying from case to case.

37.1.3 Age analysis of profit accrued on murabaha investments

Past due

June 30, 2018				
Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount Amount
Rupees				
0 days	-	-	-	-
1 day - 89 days	-	-	-	-
90 days - 179 days	-	-	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	2,459,641	-	2,459,641	-
3 year or more	12,835,727	-	12,835,727	-
<b>Total</b>	<b>15,295,368</b>	<b>-</b>	<b>15,295,368</b>	<b>-</b>

Past due

June 30, 2017				
Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount Amount
Rupees				
0 days	-	-	-	-
1 day - 89 days	-	-	-	-
90 days - 179 days	-	-	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	2,068,453	-	2,068,453	-
2 year - less than 3 year	2,732,411	-	2,732,411	-
3 year or more	8,019,086	-	8,019,086	-
<b>Total</b>	<b>12,819,950</b>	<b>-</b>	<b>12,819,950</b>	<b>-</b>

37.1.4 Age analysis of murabaha investments

Past due

June 30, 2018				
Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	Carrying amount Amount
Rupees				
0 days	10,559,988	10,559,988	-	10,559,988
1 day - 179 days	-	-	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	36,947,483	-	36,947,483	-
3 year or more	276,124,486	-	259,817,058	16,307,428
<b>Total</b>	<b>323,631,957</b>	<b>10,559,988</b>	<b>296,764,541</b>	<b>26,867,416</b>

Past due

June 30, 2017				
Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	Carrying amount Amount
Rupees				
0 days	14,895,252	14,895,252	-	14,895,252
1 day - 179 days	-	-	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	36,947,483	-	36,947,483	-
2 year - less than 3 year	93,500,000	-	88,867,801	4,632,199
3 year and above	183,180,057	-	171,250,157	11,929,900
<b>Total</b>	<b>328,522,792</b>	<b>14,895,252</b>	<b>297,065,441</b>	<b>31,457,351</b>

37.1.5 Age analysis of ijarah rentals receivable

Past due

June 30, 2018				
Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision/ suspension made under Prudential Regulations	Carrying amount Amount
-----Rupees-----				
0 days	421,702	421,702	-	421,702
1 day -89 days	12,892,197	12,892,197	-	12,892,197
90 days -179 days	325,290	325,290	-	325,290
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 years	102,401	-	102,401	3,463
3 year or more	108,540,087	-	108,540,087	48,018,513
Total	122,281,677	13,639,189	108,642,488	48,021,976
				74,259,701

Past due

June 30, 2017				
Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision/ suspension made under Prudential Regulations	Carrying amount Amount
-----Rupees-----				
0 days	940,414	940,414	-	940,414
1 day -89 days	10,564,673	10,564,673	-	10,564,673
90 days -179 days	523,210	523,210	-	523,210
180 days - 364 days	27,914	-	27,914	4,746
1 year - less than 2 year	3,270,553	-	3,270,553	180,386
2 year - less than 3 years	83,296,711	-	83,296,711	28,491,311
3 year or more	12,998,504	-	12,998,504	12,998,504
Total	111,621,979	12,028,297	99,593,682	41,674,947
				69,947,032

37.1.6 Age analysis of diminishing musharaka financing

Past due

June 30, 2018				
Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	Carrying amount Amount
-----Rupees-----				
0 days	7,660,288	7,660,288	-	7,660,288
1 day -179 days	10,396,494	10,396,494	-	10,396,494
180 days- 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	-	-
3 year or more	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 years	4,337,634	-	4,337,634	-
3 year or more	-	-	-	-
Total	22,394,416	18,056,782	4,337,634	-
				22,394,416

## Past due

June 30, 2017				
Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	Carrying amount Amount
Rupees				
0 days	16,364,820	16,364,820	-	16,364,820
1 day-179 days	15,893,820	15,893,820	-	15,893,820
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	-	-
3 year and above	-	-	-	-
1 year - less than 2 year	4,337,634	-	4,337,634	4,337,634
2 year - less than 3 years	-	-	-	-
3 year or more	-	-	-	-
<b>Total</b>	<b>36,596,274</b>	<b>32,258,640</b>	<b>4,337,634</b>	<b>36,596,274</b>

## 37.1.7 Age analysis of profit accrued on diminishing musharaka financing

## Past due

June 30, 2018				
Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount Amount
Rupees				
0 days	-	-	-	-
90 days - 179 days	561,471	561,471	-	561,471
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	-	-
3 year or more	-	-	-	-
2 year - less than 3 years	843,095	-	843,095	843,095
3 year or more	-	-	-	-
<b>Total</b>	<b>1,404,566</b>	<b>561,471</b>	<b>843,095</b>	<b>561,471</b>

## Past due

June 30, 2017				
Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount Amount
Rupees				
0 days	-	-	-	-
90 days - 179 days	388,493	388,493	-	388,493
180 days - 364 days	-	-	-	-
1 year - less than 2 year	705,646	-	705,646	705,646
2 year - less than 3 year	-	-	-	-
3 year or more	-	-	-	-
2 year - less than 3 years	-	-	-	-
3 year or more	-	-	-	-
<b>Total</b>	<b>1,094,139</b>	<b>388,493</b>	<b>705,646</b>	<b>388,493</b>

Provisions are recognized by the Modaraba on the basis of time based criteria given under Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

37.1.8 The Modaraba manages credit risk and its concentration through diversification of activities to avoid undue concentration of risks with individuals, groups or specific industry segments. For this purpose, the Modaraba has established exposure limits for individuals and industrial sectors. Break-up of credit risk exposure by class of business is as follows:

June 30, 2018					
Ijarah receivables and assets	Net Investment in Ijarah finance	Murabaha investments	Diminishing musharaka	Total	% age
-----Rupees-----					
Transport and communications	14,047,543	-	1,957,189	16,004,732	2.05
Education	1,705,455	-	-	1,705,455	0.22
Power	1,418,228	15,000,000	-	16,418,228	2.10
Textiles	52,426,371	28,944,448	322,974	348,406,793	44.67
Construction	-	-	-	-	0.00
Engineering	1,765,419	-	4,762,236	6,527,655	0.84
Food	86,907,145	18,059,988	-	104,967,133	13.46
Individuals	43,338,248	-	3,878,099	47,216,347	6.05
Financial institutions	16,146,997	-	-	16,146,997	2.07
Manufacturing industries	3,305,219	23,859,542	-	27,164,761	3.48
Miscellaneous	26,092,510	-	11,473,918	37,566,428	4.82
<b>Total</b>	<b>247,153,135</b>	<b>28,944,448</b>	<b>323,632,530</b>	<b>622,124,529</b>	<b>79.76</b>

June 30, 2017					
Ijarah receivables and assets	Net Investment in Ijarah finance	Murabaha investments	Diminishing musharaka	Total	% age
-----Rupees-----					
Transport and communications	19,623,592	300,933	6,957,805	26,882,330	3.45
Education	1,723,981	-	-	1,723,981	0.23
Power	1,675,769	15,000,000	-	16,675,769	2.14
Textiles	63,462,792	55,829,233	2,772,744	389,031,834	49.88
Construction	9,297,000	-	-	9,297,000	1.20
Engineering	2,491,992	23,859,542	4,337,634	30,689,168	3.94
Food	94,545,613	22,395,252	-	116,940,865	15.00
Individuals	93,230,188	-	9,788,688	103,018,876	13.21
Financial institutions	19,491,880	-	-	19,491,880	2.50
Manufacturing industries	30,625,849	-	-	30,625,849	3.93
Miscellaneous	22,896,976	-	12,739,403	35,636,379	4.57
<b>Total</b>	<b>359,065,632</b>	<b>55,829,233</b>	<b>36,596,274</b>	<b>780,013,931</b>	<b>100</b>

37.2 Liquidity risk

Liquidity risk is the risk that the Modaraba will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Modaraba could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Modaraba's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or damage to the Modaraba's reputation. The following are the contractual maturities of financial liabilities, including interest / profit payments:

June 30, 2018					
Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
-----Rupees-----					
<b>Non-derivative financial liabilities</b>					
Accrued profit	2,564,748	2,564,748	2,564,748	-	-
Short term finances	217,063,388	217,063,388	217,063,388	-	-
Creditors, accrued and other liabilities	922,447	922,447	922,447	-	-
<b>Total</b>	<b>220,550,583</b>	<b>220,550,583</b>	<b>220,550,583</b>	<b>-</b>	<b>-</b>

June 30, 2017					
Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
Rupees					
<b>Non-derivative financial liabilities</b>					
Accrued profit	2,094,045	2,094,045	2,094,045	-	-
Short term finances	201,634,754	202,794,126	202,794,126	-	-
Creditors, accrued and other liabilities	1,539,512	1,539,512	1,539,512	-	-
Long term finances	50,000,002	59,120,516	19,867,762	19,815,570	19,437,184
<b>Total</b>	<b>255,268,313</b>	<b>265,548,199</b>	<b>226,295,445</b>	<b>19,815,570</b>	<b>19,437,184</b>

37.2.1 The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up / profit rates effective as at the reporting date (and includes both principal and profit payable thereon).

### 37.3 Market risk

Market risk is the risk that changes in market price such as foreign exchange rates, interest / profit rates and equity prices will effect the Modaraba's income or the value of its holdings of financial instruments.

#### 37.3.1 Currency risk

Currency risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables the exist due to transactions in foreign currencies. Currently, the Modaraba does not have any receivables or payables that exist due to transactions in foreign currencies which expose it to currency risk.

#### 37.3.2 Interest / profit rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest / profit rates.

The Modaraba's interest / profit rate risk arises from short term finance, short term finances, bank balances in saving accounts, net investment in ijarah finance, diminishing musharaka, murabaha investments and loans to employees. Short term investments, short term finances, murabaha investments, diminishing musharaka and balances in saving accounts are at variable rates, that expose the Modaraba to cash flow interest / profit rate risks. Long term loans to employees made at fixed rate expose the Modaraba to fair value interest / profit rate risk.

At the reporting date the interest / profit rate profile of the Modaraba's interest bearing financial instruments was:

	2018	2017
	Rupees	Rupees
<b>Fixed rate instruments</b>		
<b>Financial assets</b>		
Loans to employees	858,497	1,556,881
<b>Floating rate instruments</b>		
<b>Financial assets</b>		
Murabaha investments	29,393,239	135,628,163
Ijarah rentals receivable	74,259,701	69,947,032
Cash and bank balances	51,653,789	49,707,521
Diminishing musharaka financing	22,394,416	36,596,274
Net investment in ijarah finance	17,230,714	32,922,381
Short term investments	30,895,000	-
<b>Financial liabilities</b>		
Long term finances	-	50,000,002
Short term finances	217,063,388	201,634,754

#### Fair value sensitivity analysis for fixed rate instruments

The Modaraba does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest / profit rate at the reporting date would not affect profit or loss of the Modaraba.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest / profit rates at the reporting date would have increased / (decreased) the loss for the year by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the year 2017. Following will be impact on the profit and loss account and the equity of the Modaraba:

	June 30, 2018		June 30, 2017	
	100 bps		100 bps	
	Increase	Decrease	Increase	Decrease
	Rupees	Rupees	Rupees	Rupees
Floating rate financial assets	2,258,269	(2,258,269)	2,203,119	(2,203,119)
Floating rate financial liabilities	(2,170,634)	2,170,634	(2,516,349)	2,516,349
Net effect	87,635	(87,635)	(313,230)	313,230

The sensitivity analysis prepared is not necessarily indicative of the effects on loss for the year and assets / liabilities of the Modaraba. This analysis is prepared assuming that amounts of liabilities and assets outstanding at reporting dates were outstanding for the entire year.

37.3.3 Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest / profit rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Modaraba is not exposed to commodity price risk and equity price risk.

37.4 Financial instruments by categories

	2018	2017
	Rupees	Rupees
<b>Financial assets as per balance sheet</b>		
<b>Loans and receivables</b>		
Cash and bank balances	51,653,789	49,707,521
Ijarah rentals receivable	74,259,701	69,947,032
Accrued profit	595,657	388,493
Murabaha investments	29,393,239	135,628,163
Net investment in ijarah finance	17,230,714	32,922,381
Diminishing musharaka financing	22,394,416	36,596,274
Advances, prepayments and other receivables	1,212,829	1,503,788
Long term loans and deposits	858,497	1,596,381
	<u>197,598,842</u>	<u>328,290,033</u>
<b>Available for Sale</b>		
Short term investments	<u>30,895,000</u>	<u>-</u>
<b>Financial liabilities as per balance sheet</b>		
<b>Loans and receivables</b>		
Accrued profit payable	2,564,748	2,094,045
Short term finances	217,063,388	201,634,754
Creditors, accrued and other liabilities	922,447	1,539,512
Long term finances	-	50,000,002
	<u>255,268,313</u>	<u>255,268,313</u>

Note 38

Recognized Fair Value Measurements - Financial Instruments

Fair value hierarchy

Certain financial assets and financial liabilities are not measured at fair value if the carrying amounts are a reasonable approximation of fair value. Due to short term nature, carrying amounts of certain financial assets and financial liabilities are considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different from their carrying amounts. Judgements and estimates are made in determining the fair values of the financial instruments that are recognized and measured at fair value in these financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Modaraba classifies its financial instruments into the following three levels. As at the reporting date, the Modaraba has short term investments which are required to be grouped into level 2. These levels are explained as under.



- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the modaraba is the current bid price. These instruments are included in level 1.
- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Note 39

#### Balances And Transactions With Related Parties

Related parties comprise associated companies, modaraba management company and its holding undertaking, directors of the Modaraba management company and key management personnel. Detail of transactions with related parties and balances outstanding with them at the reporting dates are as follows:

			2018 Rupees	2017 Rupees
<b>39.1</b>	<b>Balances outstanding at the reporting date</b>			
	Bank accounts with National Bank of Pakistan		384,760	295,938
	Finances from National Bank of Pakistan		217,063,388	251,634,756
<b>39.2</b>	<b>Transactions during the year</b>			
	<b>Related party</b>	<b>Relationship</b>	<b>Nature of Transaction</b>	
	National Bank of Pakistan	Modaraba Management	Long term finance repaid	50,000,002
		Company's holding company	Short term finance obtained - net	15,428,634
			Ijarah rentals received	12,587,931
			Mark up paid	15,515,847
	Remuneration to key management personnel			6,036,558
				4,929,638

Note 40

#### Segment Information

- 40.1 As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The chief executive officer (CEO) of the Modaraba has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.
- 40.2 The CEO is responsible for the Modaraba's entire product portfolio and he considers the business as a single operating segment. The Modaraba's asset allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on an overall basis.
- 40.3 The internal reporting provided to the CEO for the Modaraba's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of approved accounting and reporting standards as applicable in Pakistan. The Modaraba is domiciled in Pakistan. All of the Modaraba's income is from investment in entities incorporated in Pakistan. The Modaraba also has a diversified certificate holder population. As at June 30, 2018, there was only one (June 30, 2017: one) certificate holder (National bank of Pakistan - the holding company of the Modaraba Management Company) who held more than 10% of the Modaraba's certificate capital. Its holding was 30% (June 30, 2017: 30%).

Note 41

#### Date Of Authorization For Issue

These financial statements have been approved by the Board of Directors of National Bank Modaraba Management Company Limited and authorized for issue on October 02, 2018

Note 42

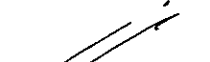
#### General

Comparative figures are re-arranged, wherever necessary, to facilitate comparison. No material re-arrangements have been made in these financial statements.

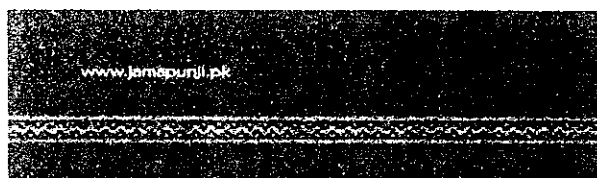
Lahore: October 02, 2018

  
Chief Executive Officer  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

  
Chief Financial Officer  
National Bank Modaraba  
Management Company Limited



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First National Bank Modaraba  
Securities and Exchange  
Commission of Pakistan

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\*Mobile apps are also available for download for android and ios devices

## PATTERN OF CERTIFICATE HOLDING

AS ON JUNE 30, 2018

Number of ShareHolders	Shareholdings From	To	Total Number of Share Held	Percentage of Total Capital
76	1 -	100	2,711	0.01
344	101 -	500	165,114	0.66
206	501 -	1000	192,270	0.77
209	1001 -	5000	616,354	2.47
87	5001 -	10000	701,283	2.81
27	10001 -	15000	369,709	1.48
24	15001 -	20000	433,792	1.74
22	20001 -	25000	502,990	2.01
16	25001 -	30000	466,787	1.87
5	30001 -	35000	156,900	0.63
9	35001 -	40000	347,502	1.39
4	40001 -	45000	173,965	0.70
6	45001 -	50000	295,990	1.18
2	50001 -	55000	106,272	0.43
1	55001 -	60000	56,000	0.22
1	60001 -	65000	62,500	0.25
1	65001 -	70000	66,500	0.27
2	75001 -	80000	153,995	0.62
1	85001 -	90000	90,000	0.36
1	90001 -	95000	95,000	0.38
6	95001 -	100000	600,000	2.40
1	115001 -	120000	115,500	0.46
1	130001 -	135000	132,500	0.53
2	150001 -	155000	308,000	1.23
1	155001 -	160000	159,800	0.64
1	165001 -	170000	168,000	0.67
1	180001 -	185000	181,500	0.73
2	195001 -	200000	400,000	1.60
2	205001 -	210000	416,966	1.67
1	215001 -	220000	216,500	0.87
1	240001 -	245000	242,002	0.97
1	265001 -	270000	267,000	1.07
1	270001 -	275000	273,998	1.10
3	295001 -	300000	896,600	3.59
2	405001 -	410000	819,500	3.28
1	590001 -	595000	590,500	2.36
1	1280001 -	1285000	1,281,500	5.13
1	1495001 -	1500000	1,500,000	6.00
1	1870001 -	1875000	1,874,500	7.50
1	1995001 -	2000000	2,000,000	8.00
1	7495001 -	7500000	7,500,000	30.00
<b>1,076</b>			<b>25,000,000</b>	<b>100.00</b>

**CATEGORIES OF CERTIFICATE HOLDERS  
AS ON JUNE 30, 2018**

Ser #	Code	Category	No. of Shareholder	Shares Held	Percentage of Total Capital
1	1	Individuals	1,066	16,674,501	66.6980
2	4	Joint Stock Companies	6	202,601	0.8064
3	9	Modaraba Management Cos	1	7,500,000	30.0000
4	10	Funds	1	300,000	1.2000
5	24	Others	2	323,898	1.2956
<b>TOTAL:</b>			<b>1,076</b>	<b>25,000,000</b>	<b>100.0000</b>

## CATEGORIES DETAILS AS ON JUNE 30, 2018

Category		Numbers of Certificates
Individuals		16,674,501
Joint Stock Companies		
1	MAPLE LEAF CAPITAL LIMITED	1
2	MUHAMMAD AHMED NADEEM SECURITIES (SMC-PVT) LIMITED	100
3	DOSSLANI'S SECURITIES (PVT) LIMITED	500
4	FIKREES (PRIVATE) LIMITED	500
5	AMZ SECURITIES (PVT) LIMITED	500
6	SALIM SOZER SECURITIES (PVT.) LTD.	200,000
Joint Stock Companies		201,601
Modaraba Management Cos		
1	NATIONAL BANK MODARBA MANAGEMENT COMPANY LIMITED	7,500,000
Modaraba Management Cos		7,500,000
Funds		
1	TRUSTEES D.G.KHAN CEMENT CO.LTD.EMP. P.F	300,000
Funds		300,000
Others		
1	TRUSTEES ALOO&MINOCHER DINSHAW CHR.TRUST	49,900
2	TEACHERS RESOURCE CENTRE	273,998
Others		323,898
		25,000,000

### Certificate Holding Of 5% Or Above

NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED	7,500,000
SHAKEEL ARSHAD	1,874,500
DURAIN CASSIM	1,500,000
DINAZ CASSIM	2,000,000
FIROZUDDIN CASSIM	1,218,500

ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

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# FIRST NATIONAL BANK MODARABA

Managed By:

National Bank Modaraba Mangement Company Limited  
(A wholly owned subsidiary of National Bank of Pakistan)

Certified to be True Copy

  
ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

## Annual Report 2019

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## Annual Report 2019

## CORPORATE INFORMATION

Board of Directors	Mr. Muhammad Imran Malik	Chairman
	Mr. Rehmat Ali Hasnie	Director
	Syed Jamal Baquar	Director
	Khawaja Waheed Raza	Director
	Mr. Jamal Nasim	Director
	Mr. Muhammad Iqbal Hussain	Director
	Mr. Abbas Azam	CEO
Shari'ah Advisor	Mufti Ehsan Waquar Ahmed	
Chief Financial Officer/	Farah Aslam	
Company Secretary		
Audit Committee	Mr Jamal Nasim	Chairman
	Khawaja Waheed Raza	Member
	Syed Jamal Baquar	Member
HR & Remuneration Committee	Khawaja Waheed Raza	Chairman
	Mr. Muhammad Iqbal Hussain	Member
	Mr. Rehmat Ali Hasnie	Member
Auditors	HORWATH HUSSAIN CHAUDHURY & CO. Chartered Accountants	
Bankers	National Bank of Pakistan	
	Bank Alfalah Limited	
	Al Baraka Islamic Bank	
	Habib Bank Limited	
	MCB Bank Limited	
	Bank Islami Pakistan Limited	
Legal Advisor	Cornelius Lane & Mufti Advocates and Solicitors Nawa-i-Waqt House 4 - Shahr-e-Fatima Jinnah, Lahore Tel.: 36360824, Fax: 36303301	
Shares Registrar	Hameed Majeed Associates (Pvt.) Limited H. M. House, 7 - Bank Square, Lahore Tel: 37235081-2, Fax: 37358817	
Registered Office	Ground Floor, NBP RHQs Building, 26 - McLagon Road, Lahore Tel: 042-99211200, Fax: 042-99213247 URL: <a href="http://www.nbmodaraba.com">http://www.nbmodaraba.com</a>	



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## **First National Bank Modaraba**

### **NOTICE OF 16TH ANNUAL REVIEW MEETING & BOOK CLOSURE**

Notice is hereby given that the 16<sup>th</sup> Annual Review Meeting of certificate holders of First National Bank Modaraba will be held on Monday, October 28, 2019 at 11:00 a.m. at Ground Floor, NBP RHQs Building, 26 – McLagon Road, Lahore to review the performance of the Modaraba for the year ended June 30, 2019.

The Certificate Transfer Book will remain closed from October 22, 2019 to October 28, 2019 (both days inclusive) for the purpose of eligibility to attend the Annual Review Meeting.

The certificate holders whose names appear on the Register of Certificate Holders of First National Bank Modaraba at the close of business as on October 21, 2019 will be eligible to attend the Annual Review Meeting. All transfers received in order, up to the close of business on October 21, 2019 at our Registrar's Office, Hameed Majeed Associates (Pvt.) Limited, H.M House, 7 – Bank Square, Lahore will be considered in time.

**By order of the Board**



**Farah Aslam**  
Company Secretary  
National Bank Modaraba Management Company Limited  
Managers of First National Bank Modaraba  
Lahore: September 26, 2019

**Vision:**

To offer Shariah compliant Islamic Financial Products in the financial market so as to achieve optimum customer satisfaction and develop sustainable business relationships.

**Mission:**

Promote an Islamic Financial Institution where values of management excellence, professionalism, human resource development are promoted such that interests of all stakeholders are safeguarded.

## First National Bank Modaraba



### Annual Shari'ah Advisor's Report

While conducting the Shari'ah review of First National Bank Modaraba managed by National Bank Modaraba, Management Company Limited (NBMMCL), a wholly owned subsidiary of National Bank of Pakistan for the financial year ended June 30, 2019, we found that FNBM did not extend any fresh financing. Further, the Modaraba did not receive any fresh funds were accepted. Therefore, the report remains more or less the same. In my opinion:

- i. The Modaraba has a mechanism for Shari'ah compliance and the systems, procedures and policies adopted by the Modaraba are in line with the Shari'ah principles;
- ii. No significant developments took place during the year.
- iii. The previous financing agreement(s) entered into by the Modaraba are Shari'ah compliant and the agreement(s) have been executed on the formats as approved by the Shariah advisor and all the related conditions have been met;
- iv. To the best of my information and according to the explanations given to me, the business transactions undertaken by the Modaraba and all other matters incidental thereto are in conformity with the Shari'ah requirements as well as the requirements of the Prospectus, Islamic Financial Accounting Standards as applicable in Pakistan and the Shari'ah Compliance and Shari'ah Audit Regulations for Modarabas
- v. Profit sharing ratios, profits and charging of losses (if any) relating to any deposit raising product conform to the basis and principles of Shari'ah.
- vi. Earnings realized from non-compliant sources were credited to charity accounts.

#### Observation(s)

However, during the review, we found that it has been found that no fresh financial activity took place, so observations remain same as previous:

- i. FNBM is maintaining bank accounts with conventional Bank.
- ii. Financing from conventional Bank(s) have been secured.

#### Recommendation(s)

Following are some recommendation:

- i. FNBM must maintain account(s) in Islamic Banks/Islamic Windows of Conventional Banks only.
- ii. Matter arising from previous report where we instructed to replace all credit lines with conventional banks with Islamic Banking facilities. It is still outstanding and the management needs to resolve this at the earliest.

#### Conclusion

Based on the above-mentioned fact, I am of the view that the business operations of First National Bank Modaraba are Shari'ah compliant up to the best of my knowledge.

EW

Mufti Ehsan Waqar

Shari'ah Advisor

Dated: September 19, 2019

## Annual Report 2019

### DIRECTORS' REPORT

Board of Directors of National Bank Modaraba Management Company Limited (NBMMCL), the management Company of First National Bank Modaraba (FNBM), presents the directors report on the 16<sup>th</sup> annual accounts of FNBM for the period ended June 30, 2019. These accounts have been audited by the statutory auditors of the Modaraba and are accompanied by their audit report.

#### 1. Financial Results:

(Amounts in Rupees)

	Year Ended June 30, 2019	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015	Year Ended June 30, 2014
Balance Sheet Size	303,068,110	356,066,321	508,478,472	841,306,270	1,248,349,011	1,692,658,474
Total Equity	(22,110,114)	8,154,162	16,333,070	87,692,752	141,525,254	263,701,324
Total Operating & Other Income	22,260,145	76,030,467	179,801,462	314,368,924	451,401,503	558,123,884
Operating & Financial Exp.	52,357,465	71,817,951	163,231,481	302,048,194	460,444,217	592,335,961
Profit for the period	(35,716,364)	(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)
Modaraba Co.'s Management Fee	Nil	Nil	Nil	Nil	Nil	Nil
Net profit after tax	(35,716,364)	(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)
Earning per certificate (Rs.)	(1.43)	(0.33)	(2.85)	(2.15)	(4.89)	(1.37)
Return on Assets (%)	(11.78)	(2.30)	(13.9)	(6.39)	(9.76)	(2.01)
Return on Equity (%)	(162)	(101)	(436.9)	(61.52)	(87.14)	(12.92)
Dividend Paid (%)	Nil	Nil	Nil	Nil	Nil	Nil
Breakup value per certificate (Rs.)	(1.42)	.33	0.64	3.52	5.64	10.52

#### 2. Economic and Sector Outlook:

The economy during the year 2018-2019 remained turbulent and was marked with high inflation, depreciating rupee value, high interest rates etc, as the newly elected Govt. was on its toes to handle the ground realities and eventually resorted to IMF's program whereby it tightened its fiscal and monetary policies in order to manage a huge external and internal debt burden piled up over past many years. Although the movement in exchange rates favored exporters, the business activity however did not pick up in general, while many import based industries went out of business. Despite approval of IMF program, the necessary stability and certainty in the economy needed for stimulating reasonable public/private sector investments did not come about during the year. Nasty local politics and regional geo-political situation marked with military standoff involving air skirmishes on eastern borders perhaps kept potential investors waiting. The stock market indices accordingly more or less kept sliding down during the year. The energy shortages were although reduced considerably, however its cost did not appear to have suited many industrial setups. The local businessmen are still showing reluctance to come to terms with the new tax regime. Nevertheless the economy is

## First National Bank Modaraba

is expected to adjust with the changing realities and would hopefully revive in the coming years when investors begin to see any continuity and soundness of Govt's economic policies, and more and more investors get attracted towards export based industries.

Financial sector, including the Modaraba sector, remained more or less steady. Although the present level of market interest rates apparently suites financial intermediaries, however they are depriving private sector from the credit needed to fuel investment growth. Also the sustainable performance of the financial sector depends on the growth in private entrepreneurs and investments, including rehabilitation of those industrial units where most of the sector's credit portfolio is stuck up. It is hoped that the market interest rates would soon be rationalized and credit would become accessible and feasible for businesses especially for SMEs. However along with any policy of lowering the interest rates, it is essential to put regulations in place to avoid spillover of the available credit in non-productive avenues. As far as Islamic financial industry is concerned, it is growing as usual and where financial Modarabas can also prosper by developing their own niche markets through innovation, technology and product development.

### Going Concern Assumption

Due to accumulated losses, Board of Directors of parent bank, National Bank of Pakistan (NBP) in its meeting held on 22<sup>nd</sup> June, 2018 resolved to review and reverse its earlier decision of cessation of Modaraba and to re-capitalize it with Rs 300 Million by issuing certificates at Rs 10 per certificate. For this purpose Securities and Exchange Commission of Pakistan (SECP) has accorded its approval on December 3, 2018 for issuance of further certificates other than right to NBP. In this respect NBP has sought SBP approval and the matter is still pending.

However, the absence of fresh equity and execution of the business plans as intended by the management, there exists material uncertainty that casts significant doubts about the Modaraba's ability to continue as a going concern. Therefore on advice of our external auditors, these financial statements have been prepared on the basis of estimated realizable / settlement values of assets and liabilities respectively as fully explained in note 1.2 to the financial statements.

### Review of Operations:

During the period under review, the management remained focused only on recovery from non-performing portfolio. Several recovery suits that were earlier initiated against defaulter parties were decreed in FNBM's favor by the relevant Banking Courts, and their execution proceedings were underway. In this respect, subsequent to the year end, a total of Rs. 11.5 million was recovered from a couple of defaulter clients, and more such recoveries are expected in the current year. On the other hand regular portfolio has performed well and generated income consistently.

The balance sheet size shrunk from Rs. 356 million in the corresponding year to Rs. 303 million this year. The Income from credit portfolio has decrease considerably due to maturities of the regular portfolio. Finance cost has increased by almost 40% during the period under review due to increase in market interest rates. Despite general inflation the operating expenses were kept under control and remained around Rs. 15 Million which is same as last year. However the operating loss when coupled with a net charge of further provisioning on account of reduction in FSVs of collaterals held against some old classified accounts, resulted in a net loss of Rs. 35 million. The loss per certificate accordingly remained at Rs. 1.43 as against Rs. 0.33 in the corresponding year.

FNBM ensures conformity with the Shariah compliance and Shariah audit mechanism for Modarabas. In this respect Sharia'h Advisor's report is attached. The amounts advised by the Sharia'h advisor to be paid as charity, has been credited to the charity account. During the year, an amount of Rs. 0.45 Million was paid as charity to approved charitable institutions as per policy approved by the Board of Directors.

### Profit Distribution

Board in its meeting held on September 26, 2019 did not declare any dividends due to the aforementioned reasons.

## Annual Report 2019

### Future Outlook:

Following the decision of NBP for injection of equity and along with achieving substantial recoveries from non performing loans, the new business activity is planned to be focused mainly on small ticket financing of consumer/ commercial vehicles and standalone machinery/equipment to small and medium size enterprises.

The returns on new financing, coupled with recoveries from existing non-performing classified portfolio, are expected to enable FNBM to start paying dividends regularly within few years.

### **3. Corporate and Financial Reporting Framework:**

- The financial statements, prepared by the management of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Modaraba have been maintained.
- Accounting policies have been applied consistently, unless otherwise stated in financial statements, in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, International accounting standards, and Islamic Financial Accounting Standards as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements.
- The system of internal control, which is sound in design is in place and is being continuously reviewed by internal audit. The process of review will continue and any weakness in controls will be removed.
- These financial statements are prepared on non-going concern basis.
- There has been no material departure from the best practices of corporate governance as detailed in the listing regulations except for those specifically mentioned in the statement of compliance with the CCG.
- There are no statutory payments on account of taxes, duties, levies and charges, which are outstanding as on June 30, 2019 except those disclosed in the financial statements.
- During the year ended June 30, 2019 four (04), meetings of the Board of Directors were held. Besides (04) four Audit committee and two (02) HR Committee meetings along with two(02) risk management committee meetings were also held. Attendance by each directors is as follows:

Name	No. of Attendance			
	Board	Audit Committee	HR Committee	RM Committee
i. Rehmat Ali Hasnie	4	N/A	1	N/A
ii. Syed Jamal Baquar	3	1	N/A	N/A
iii. Khawaja Waheed Raza	4	4	2	2
iv. Mr. Jamal Nasim	4	4	N/A	2
v. Mr. Muhammad Iqbal Hussain	4	N/A	2	2
vi. Mr. Muhammad Imran Malik	4	N/A	N/A	N/A
vii. Mr. Abbas Azam	4	N/A	N/A	N/A

**First National Bank Modaraba**

The remuneration of the CEO and meeting fee of the non-executive members of the board of directors are paid by the management company, NBMCL.

The pattern of certificate holders is annexed.

1. Auditors:

The auditors M/s. Horwath Hussain Chaudhry & Co Chartered Accountants, who were auditors of previous year as well, have given their consent to act as auditors for the year ending June 30, 2020. Their appointment has been confirmed by the Board, subject to approval by the Registrar, Modaraba Companies and Modarabas SECP.

2. Acknowledgement:

The Board would like to take this opportunity of expressing gratitude and thanks to our valued customers for their patronage and support, the Securities and Exchange Commission of Pakistan, Pakistan Stock Exchange, and NBF & Modaraba Association of Pakistan for their continuance support and guidance.

**For and on Behalf of the Board**



Chief Executive Officer

September 26, 2019

Year Ended June 30, 2019	303,068,110	356,066,321	508,478,472	841,306,270	1,248,349,011	1,692,658,474
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Return on Equity (%)	(182)	(101)	(436.9)	(61.52)	(87.14)	(12.92)
Dividend Paid (%)	Nil	Nil	Nil	Nil	Nil	Nil
Breakup value per certificate (Rs.)	(1.42)	.33	0.64	3.52	5.64	10.52
Year Ended June 30, 2014	Year Ended June 30, 2015	Year Ended June 30, 2016	Year Ended June 30, 2017	Year Ended June 30, 2018	Year Ended June 30, 2019	Year Ended June 30, 2020

ڈائریکٹر انچارج  
بیسٹ منیجمنٹ سسٹمز (NBMMCL) لاہور  
ممبرانہ 30 جون 2019 کو اجلاس منعقد کیا گیا۔  
ممبرانہ 16 جولائی 2019 کو اجلاس منعقد کیا گیا۔  
ممبرانہ 16 جولائی 2019 کو اجلاس منعقد کیا گیا۔

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Annual Report 2019



مالیاتی سیکٹرز بشمول مضاربہ سیکٹر، ویش مستحکم رہا اگرچہ موجودہ شرح سود بظاہر مالیاتی شعبہ کے مفاد میں لگتی ہے تاہم یہ شرح سرمایہ کاری کے فروغ کیلئے نئی شعبہ کو مطلوبہ قرض کی فراہمی سے محروم کر رہی ہے نیز مالیاتی شعبہ کی پائیدار کارکردگی کا انحصار نئی کاروباری اداروں اور سرمایہ کاری کے اضافہ پر منحصر ہے۔ جس میں ان صنعتوں کی بحالی بھی شامل ہے جہاں اس شعبہ کا زیادہ تر قرض جمع ہے۔ امید ہے کہ مارکیٹ میں شرح سود جلد ہی مناسب سطح پر آجائے گی اور کاروبار کیلئے خاص طور پر چھوٹے کاروبار کیلئے قرض کا حصول قابل رسائی اور معائنہ عمل ہو جائے گا۔ تاہم شرح سود کی کسی بھی پالیسی کے ساتھ مخصوص قواعد و ضوابط وضع کرنے ہو گئے تاکہ سرمایہ غیر مفید شعبوں میں ضائع نہ ہو اور کاروبار کے جہاں تک اسلامی مالیاتی صنعت کا تعلق ہے تو یہ ترقی کر رہا ہے اور مالیاتی مضاربہ بھی جدت میکانیکی اور اپنی خدمات کی بہتری کے ذریعہ اپنی مخصوص منڈی دریافت کر کے خوشحال ہو سکتے ہیں۔

### گوئنگ کنسرن قابلیت

مجموعی خسارہ جات کے پیش نظر 22 جون 2018 کو پیئرٹ بینک نیشنل بینک آف پاکستان (NBP) کے بورڈ آف ڈائریکٹرز نے مضاربہ کے خاتمے کے سابقہ فیصلہ پر نظر ثانی کر کے اور 300 ملین روپے کی 10 روپے فی صرف سرٹیفیکیٹ کے حساب سے سرمایہ کاری کے ذریعہ دوبارہ فعال کرنے کا عزم کیا۔ اس مقصد کے لیے (SECP) سیکورٹی ایکسچینج کمیشن آف پاکستان نے 3 دسمبر 2018 نیشنل بینک آف پاکستان کے حق میں مزید سرٹیفیکیٹ کے اجراء کی منظوری دی ہے۔ اس سلسلے میں NBP نیشنل بینک آف پاکستان نے SBP سٹیٹ بینک آف پاکستان سے منظوری طلب کی ہے اور یہ معاملہ بھی زیر التواء ہے۔

تاہم انتظامیہ کی اپنے نئے کاروباری منصوبے پر عمل درآمد کی عدم موجودگی اور تازہ ایکویٹی کی عدم موجودگی غیر یقینی صورتحال موجود ہے۔ لہذا ہمارے بیرونی آڈیٹر کی ہدایت پر مالیاتی گوشوارے بالتریب اثاثہ جات اور واجبات کی تخمینہ کی بنیاد پر تیار کیے گئے ہیں۔ جیسا کہ مالیاتی بیان کے نوٹ نمبر 1.2 میں مفصل بیان کیے گئے ہیں۔

### آپریٹنگ کا جائزہ

زیر جائزہ مدت کے دوران انتظامیہ کی توجہ غیر فعال پورٹ فولیو پر رہی، ریکوری مقدمات جو پہلے کیے گئے تھے FNBم کے حق میں فیصلے آنا شروع ہو گئے ہیں۔ اس سلسلے میں سال کے اختتام کے فوراً بعد پر دو ناہندگان سے مجموعی طور پر 11.5 ملین روپے کی وصولی ہوئی۔ رواں سال مزید وصولیوں کی توقع ہے دوسری جانب باقاعدہ پورٹ فولیو سے مستقل آمدنی حاصل کی۔ اس سال بیلنس شیٹ کا سائز 356 ملین روپے سے گھٹ کر 303 ملین روپے رہ گیا ہے۔ باقاعدہ پورٹ فولیو میں کمی کی وجہ سے کریڈٹ پورٹ فولیو سے حاصل ہونے والی آمدنی میں خاصی کمی واقع ہوئی ہے۔ دوران سال شرح سود میں اضافہ کی وجہ اس مدت میں مالی لاگت میں 40% اضافہ ہوا ہے باوجود عمومی افراط زر کے فعال اخراجات کو کنٹرول میں رکھا گیا جو گزشتہ سال کی مانند 15 ملین کے لگ بھگ رہے۔ تاہم فعال خسارہ کے ساتھ کچھ پرانے ناہندگان کے اثاثوں کی FSV میں کمی کی وجہ سے مزید 35 ملین روپے کا خسارہ ہوا۔ اس سال فی سرٹیفیکیٹ 0.33 کے مقابلے میں فی سرٹیفیکیٹ 1.43 کے نقصان پر رہا۔

FNBم نے مضاربہ پر کیے مخصوص شریعہ کے اصولوں کی پابندی کو یقینی بنایا۔ اس سلسلے میں شریعہ آڈیٹر کی رپورٹ لف کی گئی ہے شریعہ آڈیٹر نے جو رقم چیرینی میں دینے کو کہی وہ دے دی گئی سال کے دوران 0.4 ملین روپے کی رقم چیرینی میں بورڈ کے منظور شدہ اداروں کو دی گئی

### منافع کی تقسیم

بورڈ کے ممبر نے 26 ستمبر 2019 کو ہونے والی میٹنگ میں ڈیویڈنڈ / منافع کا اعلان نہیں کیا۔

### مستقبل کا جائزہ

NBP کے مزید سرمایہ کاری کے فیصلہ کے بعد غیر فعال کریڈٹ پورٹ فولیو سے خاطر خواہ وصولی کیساتھ نئی کاروباری سرگرمی کو چھوٹے کاروباری اداروں کو چھوٹے قرضہ جات کی فراہمی پر مخصوص رکھنے کا ارادہ کیا گیا ہے۔ نئی فنانسنگ پر منافع اور موجودہ نان پر فارمنگ پورٹ فولیو سے وصولی کے ساتھ توقع کی جاتی ہے کہ FNBم کچھ سالوں میں باقاعدگی سے منافع کی ادائیگی کے قابل ہو جائے گا۔

### تجارتی اور مالی رپورٹنگ کا لاٹھر عمل

- مضاربہ کی انتظامیہ کے تیار کردہ مالیاتی گوشوارے اس کے معاملات کی حالت، عملی امور کے نتائج، کیش فلو اور ایکویٹی میں تبدیلی بہتر طور پر پیش کرتے ہیں۔
- کمپنی نے کھاتوں کی موزوں کتابیں قائم رکھی ہوئی ہیں۔

## Annual Report 2019

- مالیاتی گوشواروں کی تیاری میں اکاؤنٹنگ کی مناسب حکمت عملی یکساں طور پر اپنائی گئی ہے۔ اکاؤنٹنگ تخمینوں کی بنیاد معقول اور محتاط رہی۔ اور ان سے کسی بھی انحراف کو مناسب طور پر ظاہر کیا گیا ہے۔
- پاکستان میں قابل اطلاق بین الاقوامی مالیاتی رپونٹنگ اور اسلامی مالیاتی معیار پر عمل کرتے ہوئے مالیاتی گوشوارے تیار کیے گئے ہیں۔
- اندرونی کنٹرول کا نظام موجود ہے اور اس کا ڈیزائن مضبوط ہے اور اس کا موثر نفاذ اور نگرانی کی گئی ہے۔
- یہ مالیاتی گوشوارے مضاربے کے جاری نہ رہنے کی بنیاد پر تیار کئے گئے ہیں۔
- لسٹنگ کے تفصیلی درج شدہ ضوابط ادارتی نظم و ضبط پر عمل کرنے کے بہترین طریقہ کار سے کوئی خاطر خواہ انحراف نہیں کیا گیا۔ سوائے ان امور کے جن کا ذکر CCG رپورٹ میں کر دیا گیا ہے۔
- ٹریسکر ڈیوٹی لیوین اور چارج کی مدت 30 جون 2019 تک واجب الادا مطالبات نہ ہیں سوائے ان کے جو مالیاتی گوشوارے میں مذکور ہیں۔
- 30 جون 2019 کو اختتام پذیر ہونے والے سال میں بورڈ آف ڈائریکٹر کی چار (4) میٹنگز منعقد ہوئیں اس کے علاوہ آڈٹ کمیٹی کی چار (4) میٹنگ اور دو (2) HR کمیٹی کی میٹنگ اور دو (2) RM کی میٹنگ بھی منعقد ہوئی پر ڈائریکٹر کی حاضری درج ذیل ہے۔

Name	No. of Attendance			
	Board	Audit Committee	HR Committee	RM Committee
i. Rehmat Ali Hasnie	4	N/A	1	N/A
ii. Syed Jamal Baquar	3	1	N/A	N/A
iii. Khawaja Waheed Raza	4	4	2	2
iv. Mr. Jamal Nasim	4	4	N/A	2
v. Mr. Muhammad Iqbal Hussain	4	N/A	2	2
vi. Mr. Muhammad Imran Malik	4	N/A	N/A	N/A
vii. Mr. Abbas Azam	4	N/A	N/A	N/A

CEO کا معاوضہ اور بورڈ آف ڈائریکٹر کے NON-EXECUTIVE ارکان کی میٹنگ فیس انتظامی کمیٹی NBMMCL کی جانب سے ادا کی گئی۔

سرٹیفکیٹ ہولڈر کی ترتیب لف پڑا ہے

آڈیٹرز

بورڈ نے موجودہ آڈیٹر ہاردرتھ حسین چودھری چارٹرڈ اکاؤنٹنٹس کی تقرری بطور آڈیٹر 30 جون 2020 ان کی رضامندی سے منظور کی ہے۔

ان کی تقرری رجسٹر ارمضار بہ کمپنی بورڈ اور مضاربہ SECP سے منظور شدہ ہے۔

اعتراف

بورڈ اس موقع پر اپنے معزز سرٹیفکیٹ ہولڈرز سیکورٹی آپیکس کمیشن آف پاکستان کا۔ پاکستان اسٹاک آپیکس لمیٹڈ NBFI اور مضاربہ ایسوسی ایشن آف پاکستان کا ان کی مسلسل حمایت رہنمائی اور سرپرستی کے لیے شکریہ ادا کرنا چاہتا ہے۔

برائے منجانب بورڈ



26 ستمبر 2019

چیف ایگزیکٹو آفیسر

First National Bank Modaraba

Statement of Compliance with Listed Companies  
(Code of Corporate Governance) Regulations, 2017

Name of company First National Bank Modaraba  
Year ending June 30, 2019

The company has complied with the requirements of the Regulations in the following manner:

1. The total number of directors is 7 as per the following:

- a. Male : 7
- b. Female: 0

2. The composition of board is as follows:

Category	Number of Directors in each category	Name
Independent Director	3	Mr. Muhammad Iqbal Hussain
		Mr. Jamal Nasim
		Mr. Khawaja Waheed Raza
Executive Director	1	Mr. Abbas Azam
Non-Executive Director	3	Mr. Rehmat Ali Hasnie
		Mr. Syed Jamal Baquar
		Mr. Imran Malik

3. The directors have confirmed that none of them is serving as a director on more than five listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable)

4. The company has prepared a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.

5. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

6. All the powers of the board have been duly exercised and decisions on relevant matters have been taken by board/ shareholders as empowered by the relevant provisions of the Act and these Regulations.

7. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose. The board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of board. The Board has met for the first quarter of the year on 2<sup>nd</sup> October, 2018.

8. The board of directors has a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.

9. Three out of seven directors, which is fractionally short of one half, had either acquired the prescribed certification under a director training program or obtained exemption from the Commission under the regulation. By end of next year it will be ensured that at least 75% of directors acquire the prescribed certification or obtain exemption from the commission.

10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit including their remuneration and terms and conditions of employment and complied with relevant requirements of the Regulations.

11. CFO and CEO duly endorsed the financial statements before approval of the board.

## Annual Report 2019

12. The board has formed committees comprising of members given below:

Committee	No of Members	Chairman of Committee	Members
Audit Committee	3	Jamal Nasim	Jamal Nasim
			Khawaja Waheed Raza
			Syed Jamal Baquar
HR & Remuneration Committee	3	Khawaja Waheed Raza	Khawaja Waheed Raza
			Rehmat Ali Hassnie
			Muhammad Iqbal Hussain
Risk Management Committee	3	Khawaj Waheed Raza	Khawaja Waheed Raza
			Muhammad Iqbal Hussain
			Jamal Nasim
Nomination Committee	NA		

13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance.

14. The frequency of meetings (quarterly/half yearly/ yearly) of the committees was as per following:

Committee	No of Meetings
Audit Committee	4
HR and Remuneration Committee	2
Risk Management Committee	2
Nomination Committee	NA

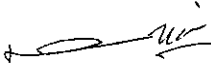
15. The board has set up an effective internal audit function Who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the company.

16. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP and registered with Audit Oversight Board of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.

17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard.

18. The position of Company Secretary and the CFO shall be segregated to meet CCG's requirements.

19. We confirm that all other requirements of the Regulations have been complied with.



Signature(s)  
Chairman

First National Bank Modaraba

Review Report on the Statement of Compliance contained in Listed Companies  
(Code of Corporate Governance) Regulations, 2017

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2017 (the Regulations) prepared by the Board of Directors of National Bank Modaraba Management Company Limited (the Management Company) for and on behalf of First National Bank Modaraba (the Modaraba) for the year ended June 30, 2019 in accordance with the requirements of regulation 40 of the Regulations.

The responsibility for compliance with the Regulations is that of the Board of Directors of the Company. Our responsibility is to review whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Regulations and report if it does not and to highlight any non-compliance with the requirements of the Regulations. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Regulations.

As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on Internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Regulations require the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions and also ensure compliance with the requirements of section 208 of the Companies Act, 2017. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out procedures to assess and determine the Company's process for identification of related parties and that whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the requirements contained in the Regulations as applicable to the Company for the year ended June 30, 2019.

Further, we highlight below instances of non-compliance with the requirements of the Regulations as reflected in the paragraph reference where these are stated in the Statement of Compliance:

Serial No.	Paragraph Reference	Description
1	7	The Board did not have a meeting in respect of first quarter until as later as October 02, 2019.
2	9	At least 50% of the Directors have not acquired the prescribed certification under the Directors Training Program or obtained exemption from the Commission as required under clause 20 of the Regulations.
3	18	The Chief financial Officer and Company Secretary of Modaraba is the same person.

*Horwath Hussain Chaudhury*

Lahore  
Dated: 26, September 2019

**HORWATH HUSSAIN CHAUDHURY & CO.**  
Chartered Accountants

## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of **First National Modaraba** ("the Modaraba") as at June 30, 2019 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the Modaraba Company's (National Bank Modaraba Management Company Limited) responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining on a test basis; evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by the Modaraba Company, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) In our opinion, proper books of accounts have been kept by the Modaraba Company in respect of the Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981;
- b) In our opinion;
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in accordance with the accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2019 and of the loss, comprehensive loss, its cash flows and changes in equity for the year then ended; and
- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention to Note 1.2 of the accompanied financial statements, which indicates that the Modaraba incurred a net loss of Rs. 35.716 million during the year ended June 30, 2019. As of that date the Modaraba's current liabilities exceeded its current assets by Rs. 109.010 million, its net liabilities amounted to Rs. 22.110 million and its accumulated losses amounted to Rs. 316.065 million. Moreover, National Bank of Pakistan's plan to recapitalize the Modaraba by injecting further Rs. 300 million is awaiting approval from the State Bank of Pakistan. This situation indicates that a material uncertainty exists that may cast significant doubt on the Modaraba's ability to continue as going concern. Therefore, these financial statements have been prepared on the basis of estimated realizable / settlement values of assets and liabilities respectively. Estimated realizable / settlement values are based on the management's best estimate. Estimation involves judgment based on the latest available, reliable information, historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. In future, these estimates may need revision if changes occur in the circumstances on which the estimates are based or as a result of new information. Hence, the ultimate values at which assets will be realized and liabilities will be settled may be different from those carried in these financial statements. Our opinion is not qualified in respect of this matter.

*Horwath Hussain Chaudhury & Co.*

HORWATH HUSSAIN CHAUDHURY & CO.

Chartered Accountants  
(Engagement Partner: Amin Ali)

LAHORE

Dated: September 26, 2019

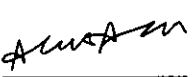
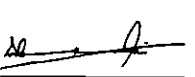
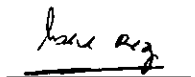

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# First National Bank Modaraba

## BALANCE SHEET AS AT JUNE 30, 2019

	Note	2019 Rupees	2018 Rupees
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and bank balances	6	11,329,223	51,653,789
Short term murabaha investments - secured	7	16,138,222	16,308,001
Accrued profit	8	2,192,041	1,097,997
Short term investments	9	74,518,664	30,895,000
Ijarah rentals receivable	10	69,521,441	74,259,701
Advances, prepayments and other receivables	11	4,421,491	3,324,398
Current portion of non current assets	12	34,922,373	42,303,266
		213,043,455	219,842,152
<b>NON-CURRENT ASSETS</b>			
Net investment in ijarah finance	13	-	1,650,864
Diminishing musharaka financing - secured	14	-	1,977,113
Long term murabaha investments - secured	15	5,893,939	7,206,979
Long term loans and deposits	16	190,780	470,143
Intangible asset	17	-	-
Fixed assets under ijarah arrangements	18	83,900,189	124,871,458
Fixed assets - own use	19	39,747	47,612
		90,024,655	136,224,169
<b>TOTAL ASSETS</b>		303,068,110	356,066,321
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accrued profit		4,505,879	2,564,748
Deferred murabaha income	7	-	-
Short term finances - secured	20	217,063,388	217,063,388
Creditors, accrued and other liabilities	21	17,928,939	19,032,000
Current portion of non-current liabilities	22	82,555,415	104,053,372
		322,053,621	342,713,508
<b>NON-CURRENT LIABILITIES</b>			
Security deposits against ijarah assets	23	890,000	2,802,200
Deferred murabaha income	24	2,234,603	2,406,131
		3,124,603	5,208,331
<b>TOTAL LIABILITIES</b>		325,178,224	347,921,839
<b>NET (LIABILITIES) / ASSETS</b>		(22,110,114)	8,144,482
<b>FINANCED BY:</b>			
Certificate capital	25	250,000,000	250,000,000
Statutory reserves	26	43,955,189	43,955,189
Accumulated loss		(316,065,303)	(285,810,707)
<b>CONTINGENCIES AND COMMITMENTS</b>	27	-	-
<b>TOTAL EQUITY AND RESERVES</b>		(22,110,114)	8,144,482

The annexed notes from 1 to 41 form an integral part of these financial statements.

			
Chief Executive Officer National Bank Modaraba Management Company Limited	Director National Bank Modaraba Management Company Limited	Director National Bank Modaraba Management Company Limited	Chief Financial Officer National Bank Modaraba Management Company Limited

Lahore: September 26, 2019

## Annual Report 2019

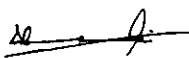
**PROFIT AND LOSS ACCOUNT**  
 FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019 Rupees	2018 Rupees
<b>INCOME FROM OPERATIONS</b>			
Ijarah rentals earned / income from ijarah finance		8,444,363	61,957,831
Profit on diminishing musharaka financing		1,709,031	1,962,269
Profit on murabaha investments		67,948	169,780
Profit on bank deposits		920,506	944,994
Profit on disposal of ijarah assets		679,410	936,127
Profit on disposal of owned assets		30,000	-
Profit on short term investment		6,369,850	1,923,820
		18,221,108	67,894,821
<b>OTHER INCOME</b>			
Reversal of provision charged for doubtful receivables - net	31	4,000,003	11,494,018
Other income	28	39,034	79,929
		4,039,037	11,573,947
<b>TOTAL INCOME</b>		<b>22,260,145</b>	<b>79,468,768</b>
<b>EXPENSES</b>			
Depreciation on ijarah assets	18	(14,795,254)	(40,280,305)
Operating expenses	29	(15,137,194)	(15,551,096)
Finance cost	30	(22,425,017)	(15,986,550)
<b>TOTAL EXPENSES</b>		<b>(52,357,465)</b>	<b>(71,817,951)</b>
<b>OPERATING (LOSS) / PROFIT BEFORE PROVISIONS AND TAXATION</b>		<b>(30,097,320)</b>	<b>7,650,817</b>
Provision charged for doubtful receivables - net	31	(5,619,044)	(3,438,301)
Impairment loss on ijarah assets - net	18	-	(12,401,104)
		(35,716,364)	(8,188,588)
Modaraba Company's management fee	32	-	-
<b>LOSS BEFORE TAXATION</b>		<b>(35,716,364)</b>	<b>(8,188,588)</b>
Taxation	33	-	-
<b>NET LOSS FOR THE YEAR</b>		<b>(35,716,364)</b>	<b>(8,188,588)</b>
<b>LOSS PER CERTIFICATE - BASIC AND DILUTED</b>	34	<b>(1.43)</b>	<b>(0.33)</b>

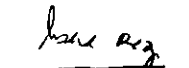
The annexed notes from 1 to 41 form an integral part of these financial statements.



Chief Executive Officer  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited



Chief Financial Officer  
National Bank Modaraba  
Management Company Limited

Lahore: September 26, 2019




First National Bank Modaraba

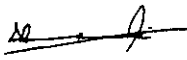
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED JUNE 30, 2019

	2019 Rupees	2018 Rupees
Net Loss for the Year	(35,716,364)	(8,188,588)
Other Comprehensive Income:		
Items that will not be reclassified to profit and loss	-	-
Items that may be reclassified subsequently to profit and loss		
- Surplus on revaluation of sukuk	5,461,768	-
Other comprehensive income for the year	5,461,768	-
Total Comprehensive Loss for the Year	(30,254,596)	(8,188,588)

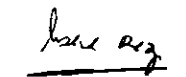
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Chief Executive Officer  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited



Chief Financial Officer  
National Bank Modaraba  
Management Company Limited

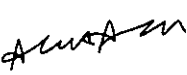

Lahore: September 26, 2019

Annual Report 2019

CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2019

		2019 Rupees	2018 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	35	14,365,415	55,563,832
Finance cost paid		(20,483,886)	(15,515,847)
Income taxes paid		(934,047)	(108,504)
Profit received on bank deposits		920,506	944,994
Long term loans and deposits - net		427,874	698,384
<b>Net Cash (Used in) / Generated from Operating Activities</b>		(5,704,138)	41,582,859
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed assets - own use acquired		-	(60,500)
Short term investments acquired - net		(38,161,896)	(30,895,000)
Proceeds from disposal of net investment in ijarah finance		-	19,023,150
Proceeds from disposal of own assets		30,000	-
Proceeds from disposal of ijarah assets		3,511,468	6,879,533
<b>Net Cash Used in Investing Activities</b>		(34,620,428)	(5,052,817)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Short term finances - net		-	15,428,634
Dividend paid to certificate holders		-	(12,406)
Long term finances - repaid		-	(50,000,002)
<b>Net Cash Used in Financing Activities</b>		-	(34,583,774)
<b>Net (Decrease) / Increase in Cash and Cash Equivalents</b>		(40,324,566)	1,946,268
Cash and cash equivalents at the beginning of the period		51,653,789	49,707,521
<b>Cash and Cash Equivalents at the End of the Year</b>		<u>11,329,223</u>	<u>51,653,789</u>

The annexed notes from 1 to 41 form an integral part of these financial statements.

			
Chief Executive Officer National Bank Modaraba Management Company Limited	Director National Bank Modaraba Management Company Limited	Director National Bank Modaraba Management Company Limited	Chief Financial Officer National Bank Modaraba Management Company Limited

Lahore: September 26, 2019


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First National Bank Modaraba

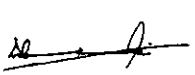
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED JUNE 30, 2019

Particulars	Certificate Capital	Statutory Reserve	Accumulated Loss	Total Equity
	Rupees			
Balance as at June 30, 2017	250,000,000	43,955,189	(277,622,119)	16,333,070
Comprehensive loss for the year				
Net loss for the year	-	-	(8,188,588)	(8,188,588)
Other comprehensive loss for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(8,188,588)	(8,188,588)
Transferred to statutory reserve	-	-	-	-
Balance as at June 30, 2018	250,000,000	43,955,189	(285,810,707)	8,144,482
Comprehensive loss for the year				
Net loss for the year	-	-	(35,716,364)	(35,716,364)
Other comprehensive income for the year	-	-	5,461,768	5,461,768
Total comprehensive loss for the year	-	-	(30,254,596)	(30,254,596)
Transferred to statutory reserve	-	-	-	-
Balance as at June 30, 2019	250,000,000	43,955,189	(316,065,303)	(22,110,114)

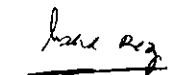
The annexed notes from 1 to 41 form an integral part of these financial statements.




Chief Executive Officer  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited



Chief Financial Officer  
National Bank Modaraba  
Management Company Limited

Lahore: September 26, 2019

## Annual Report 2019

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2019

Note 1

**Legal Status and Nature of Business**

- 1.1 First National Bank Modaraba ("the Modaraba") is a multi-purpose, perpetual and multi-dimensional Modaraba formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Rules framed thereunder. The Modaraba is managed by National Bank Modaraba Management Company Limited (a wholly owned subsidiary of the National Bank of Pakistan (NBP)), incorporated in Pakistan under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017) and registered with the Registrar of Modaraba Companies. The registered office of the Modaraba is situated at Ground Floor, National Bank of Pakistan, Regional Headquarters Building, 26-Mc Lagon Road, Lahore.

The Modaraba is listed on Pakistan Stock Exchange Limited (PSX). It commenced its operations on December 4, 2003 and is currently engaged in various Islamic modes of financing and operations including ijarah, musharaka and murabaha arrangements.

1.2 **Going concern assumption**

During the year, the Modaraba made loss before 'Modaraba Company's Management Fee' of Rs. 35.716 million (2018: Rs. 8.188). As at the reporting date, its current liabilities exceed its current assets by Rs. 109.010 million (2018: Rs. 122.871 million) and its accumulated losses amount to Rs. 316.065 million (2018: Rs. 285.811 million). Although total security deposits amounting to Rs. 83.392 million are adjustable against ijarah assets, and apart from short term borrowings obtained from NBP there are no major payables; the Registrar Modaraba has issued a show cause notice to the Modaraba as to why should the proceedings to wind up the Modaraba not be initiated in terms of Section 23(1)(ii)(b) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 in purview of consistent operating losses of the Modaraba.

In the view of above, NBP resolved in its meeting of Board of Directors dated June 22, 2018 to review and reverse its earlier decision of the cessation of the business of the Modaraba and recapitalize the Modaraba by injecting Rs. 300 million against the issuance of 30 million certificates of Rs. 10 each. This resolution was made public through corporate announcement on PSX dated July 13, 2018. To this affect, in its extraordinary general meeting of the certificate holders of the Modaraba dated November 30, 2018, a special resolution was passed for issuance of 30 million Modaraba certificates of Rs. 10 each, valuing Rs. 300 million in aggregate, to National Bank of Pakistan, as otherwise than right.

The Securities and Exchange Commission of Pakistan (SECP) has accorded its approval on December 3, 2018 for issuance of further certificates, other than right to NBP. Consequently, on January 23, 2018 NBP applied to the SBP seeking approval of injection of Rs. 300 Million in the equity of the Modaraba. The approval of injection of equity through the aforementioned arrangement is awaited from SBP. The management is confident that with the injection of Rs. 300 million it would be able to execute its proposed business plan and become profitable. The matter is under consideration in NBP in accordance with the advices of the SBP made in its correspondences with the NBP so as to ensure compliance with the relevant prudential regulations. Meanwhile, NBP is also processing approval for granting deferral in payments of accrued markup in order to ease out the Modaraba's cash flows.

However, in the absence of fresh equity and execution of the business plans as intended by the management, the above factors indicate the existence of material uncertainty that casts significant doubts about the Modaraba's ability to continue as a going concern, and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. Therefore, these financial statements have been prepared on the basis of estimated realizable / settlement values of assets and liabilities respectively.

## First National Bank Modaraba

### Note 2 Basis of Preparation

#### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Islamic Financial Accounting Standards as are notified under the provisions of the Companies Act, 2017;
- Provisions of and directives issued under the Companies Act, 2017, Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan.

Wherever, the requirements of the approved accounting standards differ with the requirement of the Companies Act, 2017, Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 or the directives issued by the Securities and Exchange Commission of Pakistan (SECP), the requirements of latter take precedence.

#### 2.2 Accounting convention

These financial statements have been prepared on the basis other than going concern using estimated realizable / settlement values of the assets and liabilities respectively. In realizable / settlement value basis assets are carried at amount of cash and cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are carried at their settlement values, that is the undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business. Previously, these financial statements were prepared under the historical convention, except for certain financial instruments which were carried at fair value.

#### 2.3 Functional and presentation currency

These financial statements are prepared and presented in Pak Rupees which is Modaraba's functional and presentation currency. All financial information presented in Pak Rupees has been rounded off to the nearest rupee unless otherwise stated.

### Note 3 Use of Estimates and Judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under circumstances, results of which form the basis of making judgment about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by the management that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are as under:

#### Ijarah assets and fixed assets in own use

The Modaraba reviews the useful lives of fixed assets, both under own use and ijarah arrangements, on regular basis. Any change in the estimate in future years might affect the carrying amounts of the respective items of fixed assets with a corresponding effect on the depreciation charge and impairment, if any.

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Note 3, Use of Estimates and Judgments - Continued...

### Ijarah rentals, musharaka and murabaha investments

Ijarah rentals, diminishing musharaka financing and murabaha investments are stated net of provision against doubtful receivables. Provision is recognized for ijarah rentals receivable, diminishing musharaka financing and murabaha investments in accordance with the Prudential Regulations for Modarabas issued by the SECP and on subjective evaluation by the management. Bad debts are written off when identified.

### Estimated realizable / settlement values of assets and liabilities respectively

Based on the management's best estimate, as on the reporting date, carrying values of assets and liabilities reflect estimated realizable / settlement values respectively. The Modaraba has recognized provision for doubtful short term murhaba investments, provision for ijarah rentals receivables and provision for long term murhaba investment on the basis of prudential regulations and subjective evaluation of non-performing receivables / assets after considering the current situation, that the Modaraba may not be able to continue as going concern. These provisions are made in addition to the time based criteria given in the Regulation of classification and provisioning for non-performing assets in Prudential Regulations for Modarabas. As per guidelines on the basis of preparation of financial statements that are not considered going concern issued by the Institute of Chartered Accountants of Pakistan, analysis of upside not recognized in the profit and loss account of the Modaraba on assets is disclosed in Note 14.3 in these financial statements. Cumulative effect of upside not recognized in the profit and loss of the Modaraba for the year ended June 30, 2019 amounts to Rs. 0.991 million.

Note 4

### Adoption of new and revised standards, amendments and interpretations:

#### 4.1 New and amended standards and interpretations to published approved accounting standards that are effective in the current year:

The following amendments to existing standards and interpretations have been published and are mandatory for accounting periods beginning on or after July 1, 2018 and are considered to be relevant to the Modaraba's financial statements:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after July 01, 2018). IASB has published the complete version of IFRS 9 which replaces the guidance in IAS 39. This final version includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the incurred loss impairment model used previously.

#### 4.2 New and amended standards and interpretations to published approved accounting standards that are not yet effective in the current year

The following standards and amendments to published accounting standards were not effective during the year and have not been early adopted by the Modaraba. The Modaraba intends to adopt these standards, if applicable, when they become effective.

	Effective Date (Period beginning on or after)
Annual improvements to IFRSs (2015-2017 Cycle)	January 01, 2019
IAS 19 Employee Benefits [Amendments]	January 01, 2019
Conceptual Framework in IFRS Standards [Amendments]	January 01, 2020
IAS 1 and IAS 8 [Amendments]	January 01, 2020
IFRIC 23 Uncertainty over Income Tax Treatments	January 01, 2019
IAS 28 Investments in Associates and Joint Ventures	January 01, 2019

## First National Bank Modaraba

### Note 4, Basis of Preparation - Continued...

Annual improvements to IFRSs (2015-2017 Cycle) relate to IFRS 3 and IFRS 11, as well as IAS 12 and IAS 23.

Amendments to IAS 19 specify the basis for determining the current service cost and the net interest expense / income for the period between a defined benefit retirement plan amendment, curtailment or settlement and the end of the reporting period.

The IASB has published a revised Conceptual Framework for Financial Reporting that will be used to develop new Standards and Interpretations in future. In particular, the definitions of assets and liabilities as well as the guidance on measurement and derecognition, presentation and disclosures are amended. This has not resulted in any technical amendments to current Standards to date. The amendments merely update the references to the Conceptual Framework in existing Standards. The Conceptual Framework itself is not subject of the endorsement procedure.

Amendments to IAS 1 and IAS 8 clarify the definition of "material". Besides additional explanations, the definition of "material" in the Conceptual Framework as well as all Standards was aligned with the central definition as stated in IAS 1.

IFRIC 23 clarifies the requirements for measuring and recognizing uncertain income tax items. The interpretation must be applied to the determination of taxable profit / loss, tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments under IAS 12.

Amendment to IAS 28 clarifies that IFRS 9 must be applied to long-term interests that, in substance, form part of the net investment in an associate or joint venture to which the equity method is applied.

#### 4.3 New and amended standards and interpretations to published approved accounting standards that are not relevant

There are certain new standards, amendments to the approved accounting standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2018, but are considered not to be relevant or have any significant effect on the Modaraba's reporting and are therefore, not disclosed in these financial statements.

### Note 5

#### Summary of Significant Accounting Policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, except IFRS 9.

##### 5.1 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and balances with banks.

##### 5.2 Receivables

Receivables are due on normal trade terms. These are carried at original invoice amount less provision for doubtful debts, if any. Balances considered bad and irrecoverable are written off when identified.

##### 5.3 Murabaha investment

Murabaha investments are stated net of provision. Provision is recognized for Murabaha investments in accordance with the time based criteria of the Prudential Regulations for Modarabas issued by the SECP and subjective evaluation of management. Outstanding balances are written off when there is no realistic prospect of recovery.

## Annual Report 2019

### Note 5, Summary of Significant Accounting Policies - Continued ...

Murabaha receivable are recorded by the Modaraba at the invoiced amount and disclosed as such in the balance sheet. Purchases and sales under murabaha and the resultant profit are accounted for on the culmination of murabaha transaction.

The profit on that portion of sales revenue not due for payment are deferred by accounting for a debit to "unearned murabaha income" account with the corresponding credit to "deferred murabaha income" account and shown in the balance sheet as a liability.

#### 5.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### 5.4.1 Financial assets

All financial assets are recognized at the time when the Modaraba becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognized and derecognized, as applicable, using trade-date accounting or settlement date accounting.

##### Classification

The Modaraba classifies its financial assets in the following categories: at amortized cost, at fair value through other comprehensive income and at fair value through profit and loss. The classification is based on its business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The management determines the classification of its financial assets at the time of initial recognition.

##### a) Financial assets at amortized cost

A financial asset is measured at amortized cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

##### b) Financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

##### c) Financial assets at fair value through profit and loss

A financial asset is measured at fair value through profit and loss unless it is measured at amortized cost or at fair value through other comprehensive income.

##### Reclassification

When the Modaraba changes its business model for managing financial assets, it reclassifies all affected financial assets accordingly. The Modaraba applies the reclassification prospectively from the reclassification date.



**First National Bank Modaraba***Note 5, Summary of Significant Accounting Policies - Continued...*

In case of reclassification out of the amortized cost measurement category to fair value through profit and loss measurement category, fair value of the financial asset is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost and fair value is recognized in profit and loss.

In case of reclassification out of fair value through profit and loss measurement category to the amortized cost measurement category, fair value of the financial asset at the reclassification date becomes its new gross carrying amount.

In case of reclassification out of the amortized cost measurement category to fair value through other comprehensive income measurement category, fair value of the financial asset is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost and fair value is recognized in other comprehensive income. The effective mark up rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

In case of reclassification out of fair value through profit and loss measurement category to the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

In case of reclassification out of fair value through other comprehensive income measurement category to the fair value through profit and loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit and loss as a reclassification adjustment at the reclassification date.

***Initial recognition and measurement***

All financial assets are recognized at the time when the Modaraba becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognized on trade-date – the date on which the Modaraba commits to purchase or sell the asset.

***Subsequent measurement***

Financial assets carried at amortized cost are subsequently measured using the Effective Interest Rate (EIR) method.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Modaraba recalculates the gross carrying amount of the financial asset and recognizes a modification gain or loss in profit and loss.

Financial assets 'at fair value through other comprehensive income' are marked to market using the closing market rates and are carried in the balance sheet at fair value. Net gains and losses arising on changes in fair values of these financial assets are recognized in other comprehensive income. Mark-up calculated using the effective interest rate method is credited to the statement of profit and loss. Dividends on equity instruments are credited to the statement of profit and loss when the Modaraba's right to receive payments is established.

Financial assets 'at fair value through profit and loss' are marked to market using the closing market rates and are carried in the balance sheet at fair value. Net gains and losses arising on changes in fair values of these financial assets are taken to the profit and loss account in the period in which these arise.

Fair values of quoted investments are based on current prices. If the market for a financial asset is not active (and for unlisted securities), the Modaraba measures the investments at cost less impairment in value, if any.

## Annual Report 2019

Note 5, Summary of Significant Accounting Policies - Continued ...

### **Derecognition**

Financial assets are derecognized when:

- the contractual rights to receive cash flows from the assets have expired; or
- the Modaraba has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - a) the Modaraba has transferred substantially all the risks and rewards of the asset; or
  - b) the Modaraba has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The difference between the carrying amount and the consideration received is recognized in profit and loss.

If the Modaraba transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognizes either a servicing asset or a servicing liability for that servicing contract.

When the Modaraba has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Modaraba continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Modaraba also recognizes an associated liability which cannot be offset with the related asset. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Modaraba has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Modaraba could be required to repay.

If the Modaraba's continuing involvement is in only a part of a financial asset, the Modaraba allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the consideration received for the part no longer recognized is recognized in profit and loss.

### **Impairment of financial assets**

Impairment of financial assets is calculated as per prudential regulations for Modarabas as notified by SECP. As per the opinion obtained from SECP regarding provision criteria for the Modaraba, provision of section 225 and 505 of Companies Act, 2017, which described that provision criteria will remain same as framed under Modaraba Ordinance, 1980 and rules and regulations framed therein.

## First National Bank Modaraba

Note 5, Summary of Significant Accounting Policies - Continued ...

### 5.4.2 Financial liabilities

#### *Initial recognition and measurement*

All financial liabilities are recognized at the time when the Modaraba becomes a party to the contractual provisions of the instrument.

Financial liabilities are classified, at initial recognition, as financial liabilities at amortized cost except for financial liabilities at fair value through profit and loss, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

The Modaraba does not reclassify any of its financial liabilities.

Financial liabilities are initially recognized at fair value minus transaction costs for all financial liabilities not carried at fair value through profit and loss. Financial liabilities carried at fair value through profit and loss are initially recognized at fair value and transaction costs are recognized in the profit and loss account.

The Modaraba's financial liabilities include trade and other payables and loans and borrowings etc.

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

#### *Financial liabilities at fair value through profit and loss*

Such liabilities, including derivatives that are liabilities, are subsequently measured at fair value.

Financial liabilities at fair value through profit and loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss. The Modaraba has not designated any financial liability as at fair value through profit and loss.

#### *All other liabilities*

All other financial liabilities are measured at amortized cost using the Effective Interest Rate (EIR) method. Gains and losses are recognized in profit and loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the profit and loss account.

#### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the profit and loss account. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit and loss.

If the Modaraba repurchases a part of a financial liability, the Modaraba allocates the previous carrying amount of the financial liability between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the repurchase. The difference between the carrying amount allocated to the part derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognized is recognized in profit and loss.

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Note 5, Summary of Significant Accounting Policies - Continued ...

### 5.4.3 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognized amount and the Modaraba intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

### 5.5 Diminishing musharaka financing

Diminishing musharaka financing is stated net of provision. Provision is recognized in accordance with Prudential Regulations for Modarabas issued by the SECP or on the estimate of management, whichever is higher. Bad debts are written off when identified.

### 5.6 Lease (ijarah) accounting

The Modaraba provides assets to its clients under ijarah agreements as approved by the Religious Board. Ijarah arrangements up to June 30, 2008 have been recorded in the books of accounts as finance lease in line with IAS-17 (Leases) and arrangements beginning on or after July 1, 2008 have been recorded in the books of accounts under IFAS-2 (Ijarah).

Under the ijarah arrangements up to June 30, 2008, amount due from lessees under finance leases are recorded as receivables at the amount of the net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

As per the requirements of IFAS-2, the Modaraba has presented assets subject to ijarah in its balance sheet according to the nature of the asset, distinguished from the assets in own use. Income from ijarah is recognized on accrual basis, unless another systematic basis is more representative of the time pattern in which benefit of use derived from the leased asset is diminished. Costs, including depreciation, incurred in earning the ijarah income are recognized as an expense.

Net investment in ijarah is stated at present value of minimum ijarah payments. Impairment losses on non-performing ijarah are recognized at higher of provision required in accordance with the Prudential Regulations for Modarabas or at a level which in the judgment of the management is adequate to provide for potential ijarah losses. These losses can be reasonably anticipated as the difference between the carrying amount of receivables and present value of expected cash flows discounted at the rates implicit in the ijarah agreement.

### 5.7 Fixed assets

#### 5.7.1 Fixed assets under ijarah arrangements

Assets given to customers under ijarah arrangements on or after 01 July 2008 are accounted for as operating lease and are stated at cost less accumulated depreciation and impairment loss, if any. Assets under ijarah arrangements are depreciated using the straight line basis over the shorter of ijarah term or asset's useful life. In respect of additions and transfers during the year, depreciation is charged proportionately to the period of ijarah.

#### 5.7.2 Assets in own use - Tangible

Tangible fixed assets are stated at cost less accumulated depreciation and impairment loss, if any. Cost in relation to the assets comprises acquisition and other directly attributable costs. Subsequent costs are included in assets' carrying amounts when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. Carrying amount of parts so replaced, if any, is derecognized. All other repairs and maintenance are charged to profit and loss as and when incurred. Gain / loss on disposals are carried to the profit and loss account in the year of disposal.

## First National Bank Modaraba

### Note 5, Summary of Significant Accounting Policies - Continued ...

Depreciation is charged to profit and loss using the straight line method at the rates as specified in note 18 to these financial statements so as to write off the cost of assets over their estimated useful lives without taking into account any residual value. Depreciation on additions to the tangible fixed assets is charged from the month in which an asset is available for use while no depreciation is charged for the month in which the asset is disposed off.

Carrying amounts of the Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated and impairment loss is recognized in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the initial cost of the asset. A reversal of the impairment loss is recognized as income in the profit and loss account.

#### 5.7.3 Assets in own use - Intangible

Expenditure incurred on intangible asset is capitalized and stated at cost less accumulated amortization and any identified impairment loss. Intangible asset is amortized on straight line basis over a period of three years.

#### 5.8 Provisions

Provisions are recognized when the Modaraba has a present, legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Future operating losses are not provided for.

#### 5.9 Borrowing costs

Borrowing costs on long term finances are capitalized up to the date of commissioning of respective qualifying assets acquired out of the proceeds of such long term finances. All other borrowing costs are recognized in profit and loss account.

#### 5.10 Revenue recognition

For lease (ijarah) agreements executed on or before June 30, 2008, the unearned finance income is deferred and amortized to income over the term of ijarah, applying the annuity method to produce a constant rate of return on net investment in ijarah. Unrealized ijarah income on potential lease losses is excluded from the income from ijarah operations in accordance with the requirements of the Prudential Regulations for Modaraba issued by the SECP.

For lease (ijarah) agreements executed on or after July 1, 2008 lease rentals are recognized as income on accrual basis, as and when the rental becomes due over the ijarah period.

The deferred murabaha income i.e. the excess of aggregate murabaha instalments over the cost of the asset under murabaha investment is deferred and then amortized over the term of the murabaha, so as to produce a constant rate of return on murabaha investment. Documentation charges, front-end fee and other murabaha income are recognized as income on receipt basis.

Return on deposits with banks is recognized on time proportionate basis.

Profit on diminishing musharaka financing is recognized under the effective mark up rate method based on the amount outstanding.

Income from fee and commission is recognized as and when it becomes due.

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Note 5, Summary of Significant Accounting Policies - Continued ...

### 5.11 Taxation

#### 5.11.1 Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits available, rebates and exemptions, if any. Under clause 100 of Part – I of Second Schedule to the Income Tax Ordinance 2001, the income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are distributed to the certificate holders.

#### 5.11.1 Deferred

Deferred tax is provided, using the balance sheet method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilized.

### 5.12 Profit distribution

Profit distribution to certificate holders is recognized as a liability in the period in which such distribution is announced.

### 5.13 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (the Chief Executive Officer of the Modaraba). Segment results, assets and liabilities include items directly attributable to a segment. Segment capital expenditure is the total cost incurred during the year to acquire fixed assets and intangible assets.

### 5.14 Contingent liabilities

Contingent liability is disclosed when there is a possible obligation that arises from past events and whose existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Modaraba.

A contingent liability is also disclosed when there is a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits would be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

### 5.15 Related party transactions

Transactions in relation to business activities with related parties are made at arm's length prices determined in accordance with the Modaraba's policy.

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# First National Bank Modaraba

Note 6

## Cash and Bank Balances

	Note	2019 Rupees	2018 Rupees
Cash in hand		-	19,541
Current accounts			
Associated undertaking - National Bank of Pakistan		223,869	152,035
Others		370,055	725,066
Saving accounts	6.1	593,924	877,101
Associated undertaking - National Bank of Pakistan		117,319	232,725
Others		10,617,980	50,524,422
		10,735,299	50,757,147
		11,329,223	51,653,789

6.1 These carry mark up at the rate of 3.50% to 9.50% (2018: 2.61% to 3.75%) per annum.

Note 7

## Short Term Murabaha Investments - Secured

	Note	2019 Rupees	2018 Rupees
Considered good		-	-
Considered doubtful		243,601,181	243,770,960
		243,601,181	243,770,960
Add: Deferred murabaha income		2,654,776	2,654,776
		246,255,957	246,425,736
Less: Provision for non-performing murabaha investments	7.2	(227,462,959)	(227,462,959)
Less: Suspended income		(2,654,776)	(2,654,776)
		16,138,222	16,308,001
7.1	These represent investments under murabaha arrangements on deferred payment basis at specified profit margins. These investments carry profit ranging from 10.36% to 15.54% (2018: 10.36% to 15.54%) per annum and are secured against charge over fixed and current assets, personal guarantees of directors of customer companies, registered and equitable mortgage of properties, demand promissory notes and post dated cheques varying from case to case.		
7.2	<b>Provision for non-performing murabaha investments</b>		
Opening balance		227,462,959	227,462,959
Charged during the year		-	-
Reversed during the year		-	-
Closing balance		227,462,959	227,462,959

Note 8

## Accrued Profit

	Note	2019 Rupees	2018 Rupees
Profit on diminishing musharaka receivable	8.1	558,385	561,471
Profit receivable on sukuks		1,633,656	536,526
		2,192,041	1,097,997
8.1	<b>Profit held in suspense</b>		
Profit receivable on musharaka finances		1,401,480	1,404,566
Suspended income	8.1.1	(843,095)	(843,095)
		558,385	561,471
8.1.1	Suspended income account against diminishing musharaka profit receivable is as follows:		
Opening balance		843,095	705,646
Suspended during the year		-	137,449
		843,095	843,095

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Note 9

## Short Term Investments

2019	2018		2019	2018
Number	Number		Rupees	Rupees
<b>Investments in sukuk of Rs 100,000 each - fair value through OCI</b>				
550	200	Neelum Jehlum Sukuk	54,718,664	20,895,000
200	100	Byco Petroleum Pakistan Limited	19,800,000	10,000,000
<u>750</u>	<u>300</u>		<u>74,518,664</u>	<u>30,895,000</u>

Note 10

## Ijarah Rentals Receivable

		2019	2018
	Note	Rupees	Rupees
Considered good - secured		1,883,253	13,639,189
Considered doubtful		119,364,371	108,642,488
Less: Provision for doubtful ijarah rentals receivable	10.1	(29,007,645)	(25,303,438)
Less: Profit held in suspense account	10.2	(22,718,538)	(22,718,538)
		<u>67,638,188</u>	<u>60,620,512</u>
		<u>69,521,441</u>	<u>74,259,701</u>
<b>10.1 Provision for doubtful ijarah rentals receivable</b>			
Opening balance		25,303,438	20,363,489
Charged during the year		3,704,207	3,001,740
Adjustment / reclassified from suspended profit		-	1,938,209
Net charged during the year		3,704,207	4,939,949
Closing balance		<u>29,007,645</u>	<u>25,303,438</u>
<b>10.2 Profit held in suspense accounts</b>			
Opening balance		22,718,538	21,311,458
Income suspended during the year		-	4,122,976
Adjustment / reclassified to provision		-	(1,938,209)
Suspended income received		-	(777,687)
Net charged during the year		-	1,407,080
Closing balance		<u>22,718,538</u>	<u>22,718,538</u>

Note 11

## Advances, Prepayments and Other Receivables

		2019	2018
	Note	Rupees	Rupees
Advances to employees for expenses		-	12,530
Income tax deducted at source		3,341,677	2,407,630
Prepayments		440,136	193,749
Other receivables	11.1	639,678	710,489
		<u>4,421,491</u>	<u>3,324,398</u>
<b>11.1 Other receivables</b>			
Considered good		639,678	710,489
Considered doubtful		30,083,188	29,680,817
		30,722,866	30,391,306
Provision against doubtful other receivables	11.2	(30,083,188)	(29,680,817)
		<u>639,678</u>	<u>710,489</u>



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Note 11, Advances, prepayments and other receivables - Continued...

11.2 Provision against doubtful other receivables	2019	2018
	Rupees	Rupees
Opening balance	29,680,817	29,244,256
Charged during the year - net	402,371	436,561
Closing balance	30,083,188	29,680,817

Note 12

Current Portion of Non Current Assets

	Note	2019	2018
		Rupees	Rupees
Net investment in ijarah finance	13	15,718,248	15,579,850
Diminishing musharaka financing	14	13,730,858	20,417,303
Long term murabaha investments	15	5,193,924	5,878,259
Long term loans and deposits	16	279,343	427,854
		34,922,373	42,303,266

Note 13

Net Investment in Ijarah Finance

Net Investment in Ijarah Finance	2019			2018		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	Rupees					
Minimum ijarah rentals receivable	50,840,981	-	50,840,981	45,655,427	5,185,554	50,840,981
Residual value of ijarah assets	2,268,214	-	2,268,214	2,221,514	46,700	2,268,214
Gross investment in ijarah finance	53,109,195	-	53,109,195	47,876,941	5,232,254	53,109,195
Less: Unearned finance income	(24,164,747)	-	(24,164,747)	(20,583,357)	(3,581,390)	(24,164,747)
Net investment in lease ijarah finance	28,944,448	-	28,944,448	27,293,584	1,650,864	28,944,448
Less: Provision for doubtful net investment in ijarah finance (Note 13.2)	(13,226,200)	-	(13,226,200)	(11,713,734)	-	(11,713,734)
	15,718,248	-	15,718,248	15,579,850	1,650,864	17,230,714
Less: Current portion (Note 12)			(15,718,248)			(15,579,850)
			-			1,650,864

13.1 The Modaraba entered into various ijarah agreements for periods spanning 8 to 14 years (2018: 8 to 14 years). Security deposits ranging from 0.1% to 10% (2018: 0.1% to 10%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.87% to 16.55% (2018: 9.76% to 11.97%) per annum.

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Note 13, Net investment in ijarah finance - Continued...

## 13.2 Provision for doubtful net investment in ijarah finance

	2019 Rupees	2018 Rupees
Opening balance	11,713,734	22,906,852
Charged during the year	1,512,466	-
Reversed during the year	-	(11,193,118)
Net charged during the year	1,512,466	(11,193,118)
Closing balance	13,226,200	11,713,734

Note 14

## Diminishing Musharaka Financing - Secured

	Note	2019 Rupees	2018 Rupees
Considered good		9,393,224	18,056,782
Considered doubtful		4,337,634	4,337,634
Provision against doubtful diminishing musharaka	14.2	-	-
		4,337,634	4,337,634
		13,730,858	22,394,416
Less: Current portion	12	(13,730,858)	(20,417,303)
		-	1,977,113

14.1 This represents diminishing musharaka financing arrangements entered for a term of three to four years. The Modaraba has provided financing to the extent of 23.69% to 90% of the value of musharaka assets. This financing is secured by first charge on all present and future fixed assets of the client, personal guarantee of directors, registered and equitable mortgage on properties, post dated cheques and joint ownership of musharaka assets on case to case basis. These carry profit at rates ranging between 11.02% to 17.61% (2018: 9.35% to 14.02%) per annum and are repayable on monthly basis.

14.2 The provision against doubtful diminishing musharaka financing has not been incorporated as the forced sale value of collaterally held assets is greater than the amount receivable from the respective parties.

14.3 The collaterally held asset is valued at Rs. 5.329 million by the management as of the reporting date, that has shown an upside of Rupees 0.991 million which is not recognized in the profit and loss account of the Modaraba.

Note 15

## Long Term Murabaha Investments - Secured

	Note	2019 Rupees	2018 Rupees
Considered good		8,800,341	10,559,988
Considered doubtful		65,301,579	69,301,582
		74,101,920	79,861,570
Add: Deferred murabaha income	24	31,675,826	31,913,554
	15.1	105,777,746	111,775,124
Less: Provision for doubtful murabaha investments	15.2	(65,301,579)	(69,301,582)
Less: Suspension for doubtful murabaha investments		(29,388,304)	(29,388,304)
		11,087,863	13,085,238
Less: Current portion	12 & 15.3	(5,193,924)	(5,878,259)
		5,893,939	7,206,979

15.1 These represent investments under murabaha arrangements on deferred payment basis at a profit margin ranging from 9.38% to 15.50% (2018: 9.38% to 15.50%) per annum. These investments are secured against charge over fixed and current assets, registered and equitable mortgage of properties, personal guarantees of the directors of customer companies, demand promissory notes and post-dated cheques varying from case to case.

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Note 15, 'Long Term Murabaha Investments - Secured- Continued...

		2019	2018
		Rupees	Rupees
<b>15.2</b>	<b>Provision for doubtful murabaha investments</b>		
	Opening balance	69,301,582	69,602,482
	Charged during the year	-	-
	Reversed during the year	(4,000,003)	(300,900)
	Net charged during the year	(4,000,003)	(300,900)
	Closing balance	65,301,579	69,301,582
<b>15.3</b>	<b>Current portion of long term murabaha investments</b>		
	Murabaha investments	5,141,005	5,759,140
	Deferred murabaha income	52,919	119,119
		5,193,924	5,878,259

Note 16

### Long Term Loans

		2019	2018
		Rupees	Rupees
	Note		
Long term loans to employees	16.1	430,623	858,497
Security deposits		39,500	39,500
		470,123	897,997
Less: Current portion	12	(279,343)	(427,854)
		190,780	470,143

- 16.1 These loans are given to employees of the Modaraba for purchase of vehicles and carry profit at 5% (2018: 5%) per annum. Maximum aggregate balance due from employees at the end of any month during the year was Rs. 431,143 (2018: Rs. 759,043). As a security, vehicles are registered in the name of the Modaraba.

Note 17

### Intangible Asset

		2019	2018
		Rupees	Rupees
Cost		1,131,300	1,131,300
Accumulated amortization		(1,131,300)	(1,131,300)
Net book value		-	-

- 17.1 This represents ERP software. As at the reporting date, the intangible asset is fully amortized but still in use of the Modaraba.

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Note 18  
Fixed Assets under Ijarah Arrangements

Description	Plant and Machinery	Vehicles	Total
-------------	---------------------	----------	-------

--Rupees--

Year Ended June 30, 2019

<b>Cost</b>			
Balance as at July 01, 2018	345,098,196	261,190,434	606,288,630
Additions	-	-	-
Disposals	(3,791,800)	(103,328,250)	(107,120,050)
Balance as at June 30, 2019	341,306,396	157,862,184	499,168,580
<b>Accumulated depreciation</b>			
Balance as at July 01, 2018	293,670,374	168,475,439	462,145,813
Charge for the year	16,191,604	(1,396,350)	14,795,254
Disposals	(3,412,628)	(77,531,407)	(80,944,035)
Balance as at June 30, 2019	306,449,350	89,547,682	395,997,032
<b>Accumulated Impairment Loss</b>			
Balance as at July 01, 2018	17,106,617	2,164,742	19,271,359
Impairment charged	-	-	-
Balance as at June 30, 2019	17,106,617	2,164,742	19,271,359
<b>Total as at June 30, 2019</b>	<b>17,750,429</b>	<b>66,149,760</b>	<b>83,900,189</b>

Year Ended June 30, 2018

<b>Cost</b>			
Balance as at July 01, 2017	409,943,673	454,424,819	864,368,492
Additions	-	-	-
Disposals	(64,845,477)	(193,234,385)	(258,079,862)
Balance as at June 30, 2018	345,098,196	261,190,434	606,288,630
<b>Accumulated depreciation</b>			
Balance as at July 01, 2017	326,352,152	283,702,432	610,054,584
Charge for the year	23,642,346	16,637,959	40,280,305
Disposals	(56,324,124)	(131,864,952)	(188,189,076)
Balance as at June 30, 2018	293,670,374	168,475,439	462,145,813
<b>Accumulated Impairment Loss</b>			
Balance as at July 01, 2017	4,705,513	2,164,742	6,870,255
Impairment charged	12,401,104	-	12,401,104
Balance as at June 30, 2018	17,106,617	2,164,742	19,271,359
<b>Total as at June 30, 2018</b>	<b>34,321,205</b>	<b>90,550,253</b>	<b>124,871,458</b>

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## 18.1 General description of significant ijarah arrangements (IFAS-2)

The Modaraba has entered into various Ijarah agreements for periods ranging from 3 to 14 years (2018: 3 to 14 years). Security deposits ranging from 0% to 71% (2018: 0% to 71%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.87% to 16.55% (2018: 9.76% to 11.97%) per annum.

## 18.2 Aggregate amount of future ijarah rentals receivable on the basis of ijarah arrangements executed upto the reporting date are as follows:

	2019	2018
	Rupees	Rupees
<b>Future Ijarah Rental Receivables</b>		
Not later than one year	18,327,543	14,325,771
Later than one year but not later than five years	5,351,332	122,541,459
Later than five years	-	-
	<u>23,678,875</u>	<u>136,867,230</u>

Note 19

## Fixed Assets under Own Use

Description	Vehicle	Computers and accessories	Electrical Equipment	Total
-----Rupees-----				
<b>Period Ended June 30, 2019</b>				
<b>Cost</b>				
Balance as at July 01, 2018	1,390,182	1,825,558	434,664	3,650,404
Additions	-	-	-	-
Disposals	-	(5,000)	(125,000)	(130,000)
Balance as at June 30, 2019	<u>1,390,182</u>	<u>1,820,558</u>	<u>309,664</u>	<u>3,520,404</u>
<b>Accumulated depreciation</b>				
Balance as at July 01, 2018	1,358,982	1,809,146	434,664	3,602,792
Charge for the year	3,900	3,965	-	7,865
Disposals	-	(5,000)	(125,000)	(130,000)
Balance as at June 30, 2019	<u>1,362,882</u>	<u>1,808,111</u>	<u>309,664</u>	<u>3,480,657</u>
<b>Total as at June 30, 2019</b>	<u>27,300</u>	<u>12,447</u>	<u>-</u>	<u>39,747</u>
<b>Year Ended June 30, 2018</b>				
<b>Cost</b>				
Balance as at July 01, 2017	1,351,182	1,804,058	434,664	3,589,904
Additions	39,000	21,500	-	60,500
Disposals	-	-	-	-
Balance as at June 30, 2018	<u>1,390,182</u>	<u>1,825,558</u>	<u>434,664</u>	<u>3,650,404</u>
<b>Accumulated depreciation</b>				
Balance as at July 01, 2017	1,351,182	1,796,326	434,664	3,582,172
Charge for the year	7,800	12,820	-	20,620
Disposals	-	-	-	-
Balance as at June 30, 2018	<u>1,358,982</u>	<u>1,809,146</u>	<u>434,664</u>	<u>3,602,792</u>
<b>Total as at June 30, 2018</b>	<u>31,200</u>	<u>16,412</u>	<u>-</u>	<u>47,612</u>
<b>Annual rate of depreciation</b>	<u>20 %</u>	<u>33.33 %</u>	<u>20 - 33.33 %</u>	

19.1 These contain fully depreciated assets of Rs. 3,459,904 (2018: Rs. 3,589,904) that are still in use by the Modaraba.

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## Note 20

## Short Term Finance - Secured

	Note	2019 Rupees	2018 Rupees
<b>From banking companies</b>			
Running finance	20.1	<u>217,063,388</u>	<u>217,063,388</u>

**20.1** The Modaraba has obtained running finance facility of Rs. 250 million (2018: Rs. 250 million) from the National Bank of Pakistan carrying mark-up / profit at 1 month KIBOR plus 0.50% (2018: 1 month KIBOR plus 1%) per annum payable monthly. The effective mark-up / profit rate charged during the year ranged from 8.03% to 13.79% (2018: 6.76% to 6.36%) per annum. This facility is secured by way of first joint pari passu hypothecation charge on all present and future receivables, leased assets and related lease receivables and present and future assets of the Modaraba to the extent of Rs 277.778 million (2018: Rs 277.778 million).

## Note 21

## Creditors, Accrued and Other Liabilities

	2019 Rupees	2018 Rupees
Advances from customers	16,515,548	17,679,335
Accrued expenses	624,280	494,700
Withholding tax payable	-	5,000
Unclaimed profit distribution	425,218	425,218
Charity payable	363,893	427,747
	<u>17,928,939</u>	<u>19,032,000</u>

## Note 22

## Current Portion of Non-Current Liabilities

	Note	2019 Rupees	2018 Rupees
Security deposits against ijarah assets	23	82,502,496	103,934,253
Deferred murabaha income	24	52,919	119,119
		<u>82,555,415</u>	<u>104,053,372</u>

## Note 23

## Security Deposits against Ijarah Assets

	Note	2019 Rupees	2018 Rupees
Security deposits against ijarah assets		83,392,496	106,736,453
Less: Current portion	22	<u>(82,502,496)</u>	<u>(103,934,253)</u>
		<u>890,000</u>	<u>2,802,200</u>

## Note 24

## Deferred Murabaha Income

	Note	2019 Rupees	2018 Rupees
Long term deferred murabaha income	15	31,675,826	31,913,554
Suspended income		<u>(29,388,304)</u>	<u>(29,388,304)</u>
Net of suspension		2,287,522	2,525,250
Less: Current portion	22	<u>(52,919)</u>	<u>(119,119)</u>
		<u>2,234,603</u>	<u>2,406,131</u>

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## Note 25

### Certificate Capital

	2019	2018		2019	2018
	Number of certificates			Rupees	Rupees
<b>Authorized:</b>					
	<u>60,000,000</u>	<u>60,000,000</u>	Modaraba certificates of Rupees 10 each	<u>600,000,000</u>	<u>600,000,000</u>
<b>Issued, subscribed and paid-up certificate capital</b>					
	<u>25,000,000</u>	<u>25,000,000</u>	Modaraba certificates of Rupees 10 each	<u>250,000,000</u>	<u>250,000,000</u>

25.1 7,500,000 (2018: 7,500,000) certificates of the Modaraba are held by National Bank Modaraba Management Company Limited, the modaraba management company.

25.2 No certificates of the Modaraba have been issued / cancelled during the year.

## Note 26

### Statutory Reserves

Statutory reserves represent profits set aside in compliance with the requirements of prudential regulations for Modarabas issued by the SECP. These regulations require the Modarabas to transfer at least 20% after tax profit, if any, upto a maximum of 50%, in statutory reserves until the reserves equal 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred into the statutory reserves each year. During the year no amount (2018: Rs. Nil) is transferred in the statutory reserves.

## Note 27

### Contingencies and Commitments

27.1 Assistant Commissioner Inland Revenue (Appeals) raised demand of tax payables of Rs. 333.26 million for tax year 2011. Appeal was filed before the Commissioner Appeals Inland Revenue and the demand was deleted. The Department filed an appeal against the order of the Commissioner Appeals before the Appellate Tribunal. The notice of hearing is awaited from the Tribunal.

27.2 Assistant Commissioner Inland Revenue (Appeals) raised demand of tax payables of Rs. 127.362 million for tax year 2014. Appeal was filed before the Commissioner Appeals Inland Revenue and the demand was deleted and case is referred back to Assistant Commissioner.

## Note 28

### Other Income

	2019	2018
	Rupees	Rupees
Service charges	32,034	71,429
Documentation charges	<u>7,000</u>	<u>8,500</u>
	<u>39,034</u>	<u>79,929</u>

## Note 29

### Operating Expenses

		2019	2018
	Note	Rupees	Rupees
Salaries, allowances and other benefits	29.1	10,863,803	11,291,000
Legal and professional		1,700,019	1,035,736
Fees and subscription		486,500	987,867
Stationery and printing		456,002	349,790
Auditors' remuneration	29.2	375,000	350,000
Communication		253,376	233,515
Repairs and maintenance		279,992	400,862
Entertainment		158,644	275,456
Vehicles' running expenses		186,741	128,362
Advertisement		126,400	138,641
Postage and stamps		43,463	34,193
Insurance		99,409	101,186
Travelling and conveyance		2,510	50,577
Depreciation on fixed assets - own use	19	7,865	20,620
Other sundry expenses		<u>97,470</u>	<u>153,291</u>
		<u>15,137,194</u>	<u>15,551,096</u>

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Note 29, 'Operating Expenses - Continued...

### 29.1 Salaries, allowances and other benefits

The aggregate amounts charged for remuneration including all benefits to officers and employees of the Modaraba are as under:

	2019			2018		
	Officers	Employees	Total	Officers	Employees	Total
	Rupees					
Salary	2,722,800	2,244,460	4,967,260	2,816,976	2,466,744	5,283,720
House rent	1,361,400	832,694	2,194,094	1,408,500	957,199	2,365,699
Utilities	326,736	200,457	527,193	338,052	229,734	567,786
Bonus	578,595	369,415	948,010	570,675	435,567	1,006,242
Others	933,428	1,293,818	2,227,246	902,355	1,165,198	2,067,553
	<u>5,922,959</u>	<u>4,940,844</u>	<u>10,863,803</u>	<u>6,036,558</u>	<u>5,254,442</u>	<u>11,291,000</u>
Number of persons	4	8	12	4	9	13

29.1.1 Average number of employees during the year was 12 (2018: 13). All employees are on contract.

29.1.2 All employees are entitled for reimbursement of fuel expenses upto certain limits

29.2 Auditors' remuneration	2019	2018
	Rupees	Rupees
Audit fee	253,200	253,200
Half yearly review fee	96,800	96,800
Certifications	25,000	-
	<u>375,000</u>	<u>350,000</u>

29.3 Office space, utilities and related expenditure are borne by National Bank Modaraba Management Company Limited, the Modaraba management company.

Note 30

### Finance Cost

	2019	2018
	Rupees	Rupees
Short term finances	22,397,957	13,464,322
Long term finances	-	2,473,735
Bank and other charges	27,060	48,493
	<u>22,425,017</u>	<u>15,986,550</u>

Note 31

### Provision for Doubtful Receivables

	Note	2019	2018
		Rupees	Rupees
Opening balance		363,462,530	369,580,038
Add: Charged during the year	31.1	5,619,044	3,438,301
Add: Reclassified from suspended profit on ijarah		-	1,938,209
Less: Reversed during the year		(4,000,003)	(11,494,018)
Net provision charged during the year		1,619,041	(6,117,508)
Closing balance	31.2	<u>365,081,571</u>	<u>363,462,530</u>



## First National Bank Modaraba

### Note 31, Provision for Doubtful Receivables - Continued...

31.1 This includes provision of Rs. Nil (2018: Rs. 5,376 million) recognized during the year on the basis of subjective evaluation of non-performing short term murabaha investments, ijarah rentals receivable and long term murabaha investments. The break-up is as under:

	Note	2019 Rupees	2018 Rupees
31.1.1 Provision for doubtful ijarah rentals receivable	10.1	3,704,207	-
Provision charged on other receivables	11.2	402,371	5,376,510
Provision for doubtful net investment in ijarah finance	13.2	1,512,466	-
		<u>5,619,044</u>	<u>5,376,510</u>
31.2 Break up of closing balance			
Provision against doubtful murabaha investments	7.2 & 15.2	292,764,538	296,764,541
Provision for doubtful ijarah rental receivables	10.1	29,007,645	25,303,438
Provision against doubtful other receivables	11.2	30,083,188	29,680,817
Provision for doubtful net investment in ijarah finance	13.2	13,226,200	11,713,734
		<u>365,081,571</u>	<u>363,462,530</u>

### Note 32

#### Modaraba Management Company Fee

In accordance with Section 18 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, management fee @ 10% of annual profits is paid to the modaraba management company. Owing to the loss during the year, the modaraba management company's fee has not been provided for.

### Note 33

#### Taxation

33.1 No provision for current tax is recognized as the Modaraba has brought forward tax losses of Rs. 320.094 million (2018: Rs 250.987 million). Further, provision of minimum tax is not applicable to the Modaraba as per sub clause (xiii) of clause 11A of part IV of second schedule to the Income Tax Ordinance, 2001.

33.2 Deferred tax Liability / (Asset)	Note	2019 Rupees	2018 Rupees
<b>Taxable / (Deductible) temporary differences on:</b>			
Deferred tax asset has originated relating to the following:			
Accelerated tax depreciation		(45,760,527)	(46,095,831)
Carry forward tax losses		(79,792,104)	(44,324,533)
Revaluation surplus on sukuks		1,365,442	-
		<u>(124,187,189)</u>	<u>(90,420,364)</u>
Less: Deferred tax asset not recognized	33.2.1	<u>124,187,189</u>	<u>90,420,364</u>
		<u>-</u>	<u>-</u>

33.2.1 The deferred tax asset of Rs. 124.187 million (2018: Rs. 90.420 million) has not been recognized in these financial statements as the temporary differences are not expected to reverse in foreseeable future because taxable profits may not be available against which the temporary differences can be utilized.

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## Note 34

## Loss Per Certificate - Basic and Diluted

		2019	2018
		Rupees	Rupees
Loss attributable to ordinary certificates holders	Rupees	(35,716,364)	(8,188,588)
Weighted average number of ordinary certificates outstanding during the year	Numbers	25,000,000	25,000,000
Loss per certificate	Rupees	(1.43)	(0.33)

34.1 Basic earnings per modaraba certificate has been computed by dividing loss for the year as stated above with weighted average number of Modaraba certificates.

34.2 There is no dilution in loss per certificate as the Modaraba has not issued any instrument which would have an impact on its loss per certificate.

## Note 35

## Cash Generated from Operations

	2019	2018
	Rupees	Rupees (Restated)
<b>Net loss for the Year</b>	(35,716,364)	(8,188,588)
Adjustment for:		
- Depreciation on fixed assets under own use	7,865	20,620
- Depreciation on fixed assets under ijarah arrangements	14,795,254	40,280,305
- Impairment on fixed assets under ijarah arrangements	-	12,401,104
- Profit on termination of ijarah arrangements	(679,410)	(936,127)
- Gain on sale of fixed assets under owned use	(30,000)	-
- Profit on short term investments	(6,369,850)	(1,923,820)
- Charge of provision against doubtful ijarah rentals receivable - net	3,704,207	4,939,949
- Charge of suspense income against ijarah rentals receivable - net	-	1,407,080
- Provision against doubtful other receivables - net	402,371	436,561
- Charge of provision against net investment in ijarah finance - net	1,512,466	(11,193,118)
- (Reversal) / charge of provision long term murabaha investments - net	(4,000,003)	(300,900)
- Finance cost	22,425,017	15,986,550
- Profit on term deposit receipts and bank deposits	(920,506)	(944,994)
	30,847,411	60,173,210
<b>Operating (loss) / profit before working capital changes</b>	(4,868,953)	51,984,622
Decrease / (Increase) in operating assets:		
- Accrued profit	5,275,806	1,716,656
- Ijarah rentals receivable	1,034,053	(10,659,698)
- Advances, prepayments and other receivables	(565,417)	(311,471)
- Short term murabaha investments	169,779	2,908,841
- Net investment in ijarah finance	-	1,962,596
- Diminishing musharaka financing	8,663,558	14,201,858
- Long term murabaha investments	5,759,650	1,981,421
Increase / (Decrease) in operating liabilities:		
- Creditors, accrued and other liabilities	(1,103,061)	(8,220,993)
<b>Net changes in working capital</b>	19,234,368	3,579,210
<b>Cash Generated from Operations</b>	<b>14,365,415</b>	<b>55,563,832</b>

## 35.1 Liabilities Arising from Financing Activities

As at June 30, 2018	Non-cash changes	Cash flows (Net)	As at June 30, 2019
Rupees			
Short term borrowings	217,063,388	-	217,063,388

## First National Bank Modaraba

### Note 36

#### Financial Risk Management

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors of the management company has overall responsibility for the establishment and oversight of the Modaraba's risk management framework.

#### 36.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss to the Modaraba by failing to discharge an obligation. The risk is generally limited to principal amounts and accrued profit thereon, if any. The Modaraba's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the Prudential Regulations. The carrying amounts of the following financial assets represent the maximum credit exposure at the reporting date:

Financial assets	2019	2018
	Rupees	Rupees
Bank balances	11,329,223	51,634,248
Ijarah rentals receivable	69,521,441	74,259,701
Advances, prepayments and other receivables	639,678	1,212,829
Accrued profit	2,192,041	595,657
Murabaha investments - net of provision	27,226,085	29,393,239
Net investment in ijarah finance	15,718,248	17,230,714
Diminishing musharaka financing	13,730,858	22,394,416
Short term investments	74,518,664	30,895,000
Long term loans and deposits	470,123	897,997
	<u>215,346,361</u>	<u>228,513,801</u>

#### 36.1.1 Credit quality of banks

The credit quality of the Modaraba's bank balances can be assessed with reference to external credit ratings as follows:

	Rating			2019	2018
	Short term	Long term	Agency	Rupees	Rupees
National Bank of Pakistan	A1+	AAA	PACRA	343,256	384,760
Al Baraka Bank (Pakistan)	A1	A	PACRA	20,034	14,914
Bank Alfalah	A1+	AA+	PACRA	354,300	709,206
First Women Bank	A2	A-	PACRA	4,725	4,725
Habib Bank Limited	A1+	AAA	JCR-VIS	10,941	11,011
Bank Islami Pakistan	A1	A+	PACRA	10,595,967	50,509,632
				<u>11,329,223</u>	<u>51,634,248</u>

#### 36.1.2 Description of collateral held

The Modaraba's ijarah arrangements (leases) are secured against ijarah assets, demand promissory notes, post dated cheques and personal guarantees varying from case to case. In a few arrangements additional collateral is also obtained in the form of charge on fixed assets. Murabaha investments are secured against charge over fixed and current assets, registered and equitable mortgage of properties, personal guarantees of directors of customer companies, demand promissory notes and post dated cheques varying from case to case. Diminishing musharaka financings are secured by first charge on all present and future fixed assets of the client, registered and equitable mortgage on properties, personal guarantee of directors, post dated cheques and joint ownership of musharaka assets varying from case to case.

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Note 36, Financial Risk Management - Continued...

### 36.1.3 Age analysis of profit accrued on murabaha investments

Past due

June 30, 2019				
Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount Amount
-----Rupees-----				
2,400,000	-	2,400,000	2,400,000	-
2,476,929	-	2,476,929	2,476,929	-
425,818	-	425,818	425,818	-
3,549,131	-	3,549,131	3,549,131	-
985,773	-	985,773	985,773	-
8,110,723	-	8,110,723	8,110,723	-
17,948,374	-	17,948,374	17,948,374	-

Past due

June 30, 2018				
Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount
-----Rupees-----				
2,400,000	-	2,400,000	2,400,000	-
2,476,929	-	2,476,929	2,476,929	-
425,818	-	425,818	425,818	-
3,549,131	-	3,549,131	3,549,131	-
985,773	-	985,773	985,773	-
1,112,980	-	1,112,980	1,112,980	-
6,997,743	-	6,997,743	6,997,743	-
17,948,374	-	17,948,374	17,948,374	-

#### 36.1.4 Age analysis of murabaha investments

Past due

June 30, 2019				
Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	Carrying amount
-----Rupees-----				
7,087,867	7,087,867	-	-	7,087,867
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
310,615,234	-	310,615,234	296,764,538	13,850,696
317,703,101	7,087,867	310,615,234	296,764,538	20,938,563

**Past due**

June 30, 2018				
Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	Carrying amount
-----Rupees-----				
10,559,988	10,559,988	-	-	10,559,988
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
36,947,483	-	36,947,483	36,947,483	-
276,124,486	-	276,124,486	259,817,058	16,307,428
323,631,957	10,559,988	313,071,969	296,764,541	26,867,416

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Note 36, Financial Risk Management - Continued...

## 36.1.5 Age analysis of ijarah rentals receivable

Past due

June 30, 2019				
Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision/ suspension made under Prudential Regulations	Carrying amount
-----Rupees-----				
0 days	-	-	-	-
1 day -89 days	8,942,043	8,942,043	-	8,942,043
90 days -179 days	-	-	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 years	-	-	-	-
3 year or more	112,305,581	-	112,305,581	51,726,183
<b>Total</b>	<b>121,247,624</b>	<b>8,942,043</b>	<b>112,305,581</b>	<b>51,726,183</b>
				<b>69,521,441</b>

Past due

June 30, 2018				
Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision/ suspension made under Prudential Regulations	Carrying amount
-----Rupees-----				
0 days	421,702	421,702	-	421,702
1 day -89 days	12,892,197	12,892,197	-	12,892,197
90 days -179 days	325,290	325,290	-	325,290
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 years	102,401	-	102,401	3,463
3 year or more	108,540,087	-	108,540,087	48,018,513
<b>Total</b>	<b>122,281,677</b>	<b>13,639,189</b>	<b>108,642,488</b>	<b>48,021,976</b>
				<b>74,259,701</b>

## 36.1.6 Age analysis of diminishing musharaka financing

Past due

June 30, 2019				
Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	Carrying amount
-----Rupees-----				
0 days	-	-	-	-
1 day -179 days	9,393,224	9,393,224	-	9,393,224
180 days- 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	-	-
3 year or more	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 years	-	-	-	-
3 year or more	4,337,634	-	4,337,634	-
<b>Total</b>	<b>13,730,858</b>	<b>9,393,224</b>	<b>4,337,634</b>	<b>-</b>
				<b>13,730,858</b>

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Note 36, Financial Risk Management - Continued...

## Past due

	June 30, 2018			
	Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations
	Rupees			
0 days	7,660,288	7,660,288	-	-
1 day-179 days	10,396,494	10,396,494	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	-	-
3 year and above	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 years	4,337,634	-	4,337,634	-
3 year or more	-	-	-	-
<b>Total</b>	<b>22,394,416</b>	<b>18,056,782</b>	<b>4,337,634</b>	<b>-</b>

## 36.1.7 Age analysis of profit accrued on diminishing musharaka financing

## Past due

	June 30, 2019			
	Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations
	Rupees			
0 days	-	-	-	-
90 days - 179 days	558,385	558,385	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	-	-
3 year or more	-	-	-	-
2 year - less than 3 years	-	-	-	-
3 year or more	843,095	-	843,095	843,095
<b>Total</b>	<b>1,401,480</b>	<b>558,385</b>	<b>843,095</b>	<b>843,095</b>

## Past due

	June 30, 2018			
	Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations
	Rupees			
0 days	-	-	-	-
90 days - 179 days	561,471	561,471	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	-	-
3 year or more	-	-	-	-
2 year - less than 3 years	843,095	-	843,095	843,095
3 year or more	-	-	-	-
<b>Total</b>	<b>1,404,566</b>	<b>561,471</b>	<b>843,095</b>	<b>843,095</b>

Provisions are recognized by the Modaraba on the basis of time based criteria given under Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

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Note 36, Financial Risk Management - Continued...

36.1.8 The Modaraba manages credit risk and its concentration through diversification of activities to avoid undue concentration of risks with individuals, groups or specific industry segments. For this purpose, the Modaraba has established exposure limits for individuals and industrial sectors. Break-up of credit risk exposure by class of business is as follows:

June 30, 2019					
Ijarah receivables and assets	Net Investment in Ijarah finance	Murabaha investments	Diminishing musharaka	Total	% age

-----Rupees-----

Transport and communications	14,047,543	-	-	1,489,301	15,536,844	7.48%
Education	1,705,455	-	-	-	1,705,455	0.82%
Power	1,418,228	-	15,000,000	-	16,418,228	7.90%
Textiles	33,569,562	28,944,448	260,951,668	-	323,465,678	155.65%
Engineering	102,240	-	-	4,337,634	4,439,874	2.14%
Food	70,376,099	-	17,915,282	-	88,291,381	42.49%
Individuals	43,338,248	-	-	558,236	43,896,484	21.12%
Financial institutions	2,617,828	-	-	-	2,617,828	1.26%
Manufacturing industries	18,525,112	-	23,836,151	-	42,361,263	20.38%
Miscellaneous	19,448,888	-	-	7,345,687	26,794,575	12.90%
Less: Portfolio provided	(51,726,183)	(13,226,200)	(292,764,538)	-	(357,716,921)	-172.14%
<b>Total</b>	<b>153,423,020</b>	<b>15,718,248</b>	<b>24,938,563</b>	<b>13,730,858</b>	<b>207,810,689</b>	<b>100%</b>

June 30, 2018					
Ijarah receivables and assets	Net Investment in Ijarah finance	Murabaha investments	Diminishing musharaka	Total	% age

-----Rupees-----

Transport and communications	14,047,543	-	-	1,957,189	16,004,732	6.0%
Education	1,705,455	-	-	-	1,705,455	0.6%
Power	1,418,228	-	15,000,000	-	16,418,228	6.2%
Textiles	52,426,371	28,944,448	266,713,000	322,974	348,406,793	131.2%
Engineering	1,765,419	-	-	4,762,236	6,527,655	2.5%
Food	86,907,145	-	18,059,988	-	104,967,133	39.5%
Individuals	43,338,248	-	-	3,878,099	47,216,347	17.8%
Financial institutions	16,146,997	-	-	-	16,146,997	6.1%
Manufacturing industries	3,305,219	-	23,859,542	-	27,164,761	10.2%
Miscellaneous	26,092,510	-	-	11,473,918	37,566,428	14.1%
Less: Portfolio provided	(48,021,976)	(11,713,734)	(296,764,541)	-	(356,500,251)	-134.2%
<b>Total</b>	<b>199,131,159</b>	<b>17,230,714</b>	<b>26,867,989</b>	<b>22,394,416</b>	<b>265,624,278</b>	<b>100%</b>

## 36.2 Liquidity risk

Liquidity risk is the risk that the Modaraba will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Modaraba could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Modaraba's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or damage to the Modaraba's reputation. The following are the contractual maturities of financial liabilities, including interest / profit payments:

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June 30, 2019					
Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years

-----Rupees-----

Non-derivative financial liabilities

Accrued profit	4,505,879	4,505,879	4,505,879	-	-	-
Short term finances	217,063,388	217,063,388	217,063,388	-	-	-
Creditors, accrued and other liabilities	988,173	988,173	988,173	-	-	-
<b>Total</b>	<b>222,557,440</b>	<b>222,557,440</b>	<b>222,557,440</b>	<b>-</b>	<b>-</b>	<b>-</b>

June 30, 2018					
Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years

-----Rupees-----

Non-derivative financial liabilities

Accrued profit	2,564,748	2,564,748	2,564,748	-	-	-
Short term finances	217,063,388	217,063,388	217,063,388	-	-	-
Creditors, accrued and other liabilities	922,447	922,447	922,447	-	-	-
<b>Total</b>	<b>220,550,583</b>	<b>220,550,583</b>	<b>220,550,583</b>	<b>-</b>	<b>-</b>	<b>-</b>



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Note 36, Financial Risk Management - Continued...

### 36.3.3 Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest / profit rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Modaraba is not exposed to commodity price risk and equity price risk.

### 36.4 Financial instruments by categories

	At fair value through profit or loss	At amortized cost	At fair value through other comprehensive income	Total
	Rupees	Rupees	Rupees	Rupees
<b>Financial assets as at June 30, 2019</b>				
Cash and bank balances	-	11,329,223	-	11,329,223
Ijarah rentals receivable	-	69,521,441	-	69,521,441
Accrued profit	-	2,192,041	-	2,192,041
Short term investments	-	-	74,518,664	74,518,664
Murabaha investments	-	27,226,085	-	27,226,085
Net investment in ijarah finance	-	15,718,248	-	15,718,248
Diminishing musharaka financing	-	13,730,858	-	13,730,858
Advances, prepayments and other receivables	-	639,678	-	639,678
Long term loans and deposits	-	470,123	-	470,123
	-	140,827,697	74,518,664	215,346,361

### Financial assets as at June 30, 2018

Cash and bank balances	-	51,653,789	-	51,653,789
Ijarah rentals receivable	-	74,259,701	-	74,259,701
Accrued profit	-	595,657	-	595,657
Short term investments	-	-	30,895,000	30,895,000
Murabaha investments	-	29,393,239	-	29,393,239
Net investment in ijarah finance	-	17,230,714	-	17,230,714
Diminishing musharaka financing	-	22,394,416	-	22,394,416
Advances, prepayments and other receivables	-	1,212,829	-	1,212,829
Long term loans and deposits	-	858,497	-	858,497
	-	197,598,842	30,895,000	228,493,842

### Financial liabilities at amortized cost

	2019	2018
	Rupees	Rupees
Accrued profit payable	4,505,879	2,564,748
Short term finances	217,063,388	217,063,388
Creditors, accrued and other liabilities	988,173	922,447
	222,557,440	220,550,583

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	2019 Rupees	2018 Rupees
<b>Fixed rate instruments</b>		
<b>Financial assets</b>		
Loans to employees	430,623	858,497
<b>Floating rate instruments</b>		
<b>Financial assets</b>		
Murabaha investments	27,226,085	29,393,239
Ijarah rentals receivable	69,521,441	74,259,701
Bank balances	11,329,223	51,653,789
Diminishing musharaka financing	13,730,858	22,394,416
Net investment in ijarah finance	15,718,248	17,230,714
Short term investments	74,518,664	30,895,000
<b>Financial liabilities</b>		
Short term finances	217,063,388	217,063,388

**Fair value sensitivity analysis for fixed rate instruments**

The Modaraba does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest / profit rate at the reporting date would not affect profit or loss of the Modaraba.

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest / profit rates at the reporting date would have increased / (decreased) the loss for the year by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the year 2018. Following will be impact on the profit and loss account and the equity of the Modaraba:

	June 30, 2019		June 30, 2018	
	100 bps		100 bps	
	Increase	Decrease	Increase	Decrease
	Rupees	Rupees	Rupees	Rupees
Floating rate financial assets	2,120,445	(2,120,445)	2,258,269	(2,258,269)
Floating rate financial liabilities	(2,170,634)	2,170,634	(2,170,634)	2,170,634
Net effect	(50,189)	50,189	87,635	(87,635)

The sensitivity analysis prepared is not necessarily indicative of the effects on loss for the year and assets / liabilities of the Modaraba. This analysis is prepared assuming that amounts of liabilities and assets outstanding at reporting dates were outstanding for the entire year.

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Note 36, Financial Risk Management - Continued...

36.2.1 The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up / profit rates effective as at the reporting date (and includes both principal and profit payable thereon).

36.3 Market risk

Market risk is the risk that changes in market price such as foreign exchange rates, interest / profit rates and equity prices will effect the Modaraba's income or the value of its holdings of financial instruments.

36.3.1 Currency risk

Currency risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies. Currently, the Modaraba does not have any receivables or payables that exist due to transactions in foreign currencies which expose it to currency risk.

36.3.2 Interest / profit rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest / profit rates.

The Modaraba's interest / profit rate risk arises from short term finances, bank balances in savings accounts, net investment in ijarah finance, diminishing musharaka, murabaha investments and loans to employees. Short term investments, short term finances, murabaha investments, diminishing musharaka and balances in savings accounts are at variable rates, that expose the Modaraba to cash flow interest / profit rate risks. Long term loans to employees made at fixed rate expose the Modaraba to fair value interest / profit rate risk. As at the reporting date the interest / profit rate profile of the Modaraba's interest bearing financial instruments was:

Note 36, Financial Risk Management - Continued...

36.3.3 Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest / profit rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Modaraba is not exposed to commodity price risk and equity price risk.

36.4 Financial instruments by categories

	At fair value through profit or loss	At amortized cost	At fair value through other comprehensive income	Total
	Rupees	Rupees	Rupees	Rupees
<b>Financial assets as at June 30, 2019</b>				
Cash and bank balances	-	11,329,223	-	11,329,223
Ijarah rentals receivable	-	69,521,441	-	69,521,441
Accrued profit	-	2,192,041	-	2,192,041
Short term investments	-	-	74,518,664	74,518,664
Murabaha investments	-	27,226,085	-	27,226,085
Net investment in ijarah finance	-	15,718,248	-	15,718,248

## Annual Report 2019

Annual Report 2019

	At fair value through profit or loss	At amortized cost	At fair value through other comprehensive income	Total
	Rupees	Rupees	Rupees	Rupees
Diminishing musharaka financing	-	13,730,858	-	13,730,858
Advances, prepayments and other receivables	-	639,678	-	639,678
Long term loans and deposits	-	470,123	-	470,123
	-	140,827,697	74,518,664	215,346,361

**Financial assets as at June 30, 2018**

Cash and bank balances	-	51,653,789	-	51,653,789
Ijarah rentals receivable	-	74,259,701	-	74,259,701
Accrued profit	-	595,657	-	595,657
Short term investments	-	-	30,895,000	30,895,000
Murabaha investments	-	29,393,239	-	29,393,239
Net investment in ijarah finance	-	17,230,714	-	17,230,714
Diminishing musharaka financing	-	22,394,416	-	22,394,416
Advances, prepayments and other receivables	-	1,212,829	-	1,212,829
Long term loans and deposits	-	858,497	-	858,497
	-	197,598,842	30,895,000	228,493,842

**Financial liabilities at amortized cost**

	2019	2018
	Rupees	Rupees
Accrued profit payable	4,505,879	2,564,748
Short term finances	217,063,388	217,063,388
Creditors, accrued and other liabilities	988,173	922,447
	222,557,440	220,550,583

## Note 37

**Recognized Fair Value Measurements - Financial Instruments****Fair value hierarchy**

Certain financial assets and financial liabilities are not measured at fair value if the carrying amounts are a reasonable approximation of fair value. Due to short term nature, carrying amounts of certain financial assets and financial liabilities are considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different from their carrying amounts. Judgements and estimates are made in determining the fair values of the financial instruments that are recognized and measured at fair value in these financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Modaraba classifies its financial instruments into the following three levels. As at the reporting date, the Modaraba has short term investments which are required to be grouped into level 2. These levels are explained as under:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and securities at fair value through OCI or profit and loss ) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the modaraba is the current bid price. These instruments are included in level 1.

## First National Bank Modaraba

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Note 38

### Balances And Transactions With Related Parties

Related parties comprise associated companies, modaraba management company and its holding undertaking, directors of the Modaraba management company and key management personnel. Detail of transactions with related parties and balances outstanding with them at the reporting dates, except for remuneration are as follows:

			2019	2018
			Rupees	Rupees
38.1	<b>Balances outstanding at the reporting date</b>			
	Bank accounts with National Bank of Pakistan		341,188	384,760
	Finances from National Bank of Pakistan		217,063,388	217,063,388
	Mark up payable		4,505,879	2,564,748
38.2	<b>Transactions during the year</b>			
	<b>Related party</b>	<b>Relationship</b>	<b>Nature of Transaction</b>	
	National Bank of Pakistan	Modaraba	Long term finance repaid	- 50,000,002
		Management	Short term finance obtained - net	- 15,428,634
		Company's	Ijarah rentals received	- 12,587,931
		holding company	Mark up expense	22,397,957 15,938,057
			Mark up paid	20,483,886 15,515,847

Note 39

### Segment Information

- 39.1 As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The chief executive officer (CEO) of the Modaraba has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.
- 39.2 The CEO is responsible for the Modaraba's entire product portfolio and he considers the business as a single operating segment. The Modaraba's asset allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on an overall basis.
- 39.3 The internal reporting provided to the CEO for the Modaraba's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of approved accounting and reporting standards as applicable in Pakistan. The Modaraba is domiciled in Pakistan. All of the Modaraba's income is from investment in entities incorporated in Pakistan. The Modaraba also has a diversified certificate holder population. As at June 30, 2019, there was only one (June 30, 2018: one) certificate holder (National bank of Pakistan - the holding company of the Modaraba Management Company) who held more than 10% of the Modaraba's certificate capital. Its holding is 30% (June 30, 2018: 30%).

# Annual Report 2019

Note 40

Date Of Authorization For Issue

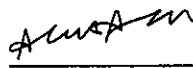
These financial statements have been approved by the Board of Directors of National Bank Modaraba Management Company Limited and authorized for issuance on September 26, 2019.

Note 41

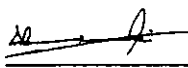
General

Comparative figures are re-arranged, wherever necessary, to facilitate comparison. The following re-arrangements have been made in these financial statements for better presentation:

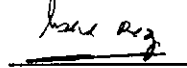
Nature	From	To	Amount (Rupees)
Accured profit	Advances, prepayments and other receivables	Profit receivable on sukuks	502,340
Profit and loss account	Reversal of provision charged for doubtful receivables - net	Provision charged for doubtful receivables - net	3,438,301



Chief Executive Officer  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited



Chief Financial Officer  
National Bank Modaraba  
Management Company Limited

Lahore: September 26, 2019

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First National Bank Modaraba

PATTERN OF CERTIFICATE HOLDING  
AS ON JUNE 30, 2019

Number of ShareHolders	Shareholdings From	To	Total Number of Share Held	Percentage of Total Capital
77	1 -	100	2,719	0.01
344	101 -	500	165,514	0.66
204	501 -	1000	190,285	0.76
199	1001 -	5000	564,358	2.26
88	5001 -	10000	708,591	2.83
28	10001 -	15000	373,209	1.49
22	15001 -	20000	406,292	1.63
23	20001 -	25000	529,492	2.12
17	25001 -	30000	489,877	1.96
5	30001 -	35000	156,575	0.63
9	35001 -	40000	351,500	1.41
4	40001 -	45000	173,965	0.70
4	45001 -	50000	195,990	0.78
2	50001 -	55000	108,772	0.44
2	60001 -	65000	123,000	0.49
1	65001 -	70000	66,500	0.27
3	75001 -	80000	233,495	0.93
8	95001 -	100000	797,000	3.19
1	115001 -	120000	115,500	0.46
1	130001 -	135000	132,500	0.53
1	150001 -	155000	153,000	0.61
2	155001 -	160000	315,300	1.26
1	165001 -	170000	168,000	0.67
1	180001 -	185000	181,500	0.73
2	195001 -	200000	400,000	1.60
1	205001 -	210000	209,000	0.84
1	215001 -	220000	216,500	0.87
1	225001 -	230000	226,966	0.91
1	240001 -	245000	242,002	0.97
1	265001 -	270000	267,000	1.07
1	270001 -	275000	273,998	1.10
3	295001 -	300000	896,600	3.59
2	405001 -	410000	818,500	3.27
1	590001 -	595000	590,500	2.36
1	1870001 -	1875000	1,874,500	7.50
1	1935001 -	1940000	1,935,500	7.74
1	2845001 -	2850000	2,846,000	11.38
1	7495001 -	7500000	7,500,000	30.00
1,065			25,000,000	100.00

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CATEGORIES OF CERTIFICATE HOLDERS  
AS ON JUNE 30, 2019

Ser #	Code	Category	No. of Shareholder	Shares Held	Percentage of Total Capital
1	1	Individuals	1,053	16,620,001	66.4800
2	4	Joint Stock Companies	8	256,101	1.0244
3	9	Modaraba Management Cos	1	7,500,000	30.0000
4	10	Funds	1	300,000	1.2000
5	24	Others	2	323,898	1.2956
TOTAL:			1,065	25,000,000	100.0000



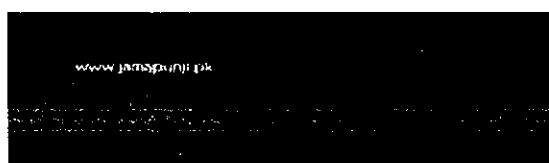
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First National Bank Modaraba

CATEGORIES DETAILS  
AS ON JUNE 30, 2019

Catagory		Numbers of Certificates
Individuals		16,620,001
Joint Stock Companies		
1	MAPLE LEAF CAPITAL LIMITED	1
2	MUHAMMAD AHMED NADEEM SECURITIES (SMC-PVT) LIMITED	100
3	FIKREES (PRIVATE) LIMITED	500
4	AMZ SECURITIES (PVT) LIMITED	500
5	DOSSLANI'S SECURITIES (PVT) LIMITED	500
6	MUHAMMAD BASHIR KASMANI (PRIVATE) LIMITED	15,000
7	MUHAMMAD SALIM KASMANI SECURITIES (PVT.) LTD.	39,500
8	SALIM SOZER SECURITIES (PVT.) LTD.	200,000
		256,101
Modaraba Management Cos		
1	NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED	7,500,000
		7,500,000
Funds		
1	TRUSTEES D.G.KHAN CEMENT CO.LTD.EMP. P.F	300,000
		300,000
Others		
1	TRUSTEES ALOO & MINOCHER DINSHAW CHR. TRUST	49,900
2	TEACHERS RESOURCE CENTRE	273,998
		323,898
		25,000,000
Certificate Holding Of 5% Or Above		
	NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED	7,500,000
	SHAKEEL ARSHAD	1,874,500
	DURAIN CASSIM	1,935,500
	DINAZ CASSIM	2,846,000

# Annual Report 2019



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**ATIF EJAZ AHMED**  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

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**Securities and Exchange Commission of Pakistan**  
**Specialized Companies Division**  
**Supervision and Enforcement Department**

Annexure L  
**ANNEX-L**  
**269**

No.SCD-SD(Enf)/FNBM/2015/141

May 13, 2015

The Chief Executive Officer  
National Bank Modaraba Management Company Ltd.  
Managers of First National Bank Modaraba  
5<sup>th</sup> Floor, NBP RHQs Building  
26 - McLagon Road  
**Lahore**

**Subject: Review of Returns – First National Bank Modaraba**

Dear Sir,

This is with reference to the review of online returns submitted by First National Bank Modaraba (FNBM) and review of quarterly accounts for the period ended March 31, 2015.

1. It has been noted that during the nine months ended March 31, 2015 FNBM recorded loss after tax of Rs106.95 million. The operating profit margin (operating profit as percentage of total revenues) was reduced to 0.75% for the current period, compared with 2.61% during the nine months ended March 31, 2014. Major reason for after tax loss was provision for non-performing receivables amounting to Rs109.67 million. The equity of the Modaraba reduced to Rs156.75 million as of March 31, 2015 as against Rs263.70 million as of June 30, 2014 (erosion of 40% during nine months). This reflects that 37.30% of the total capital subscribed by the Modaraba certificate holders has eroded. The management is advised to share with us its plan for controlling the losses and prevent further equity erosion. Furthermore, please also share the management's plan to enhance Modaraba's equity going forward.
2. It is noted that the total classified assets of FNBM were Rs462.93 million as of March 31, 2015 which were 31% of gross total assets (increased from 16.50% of gross assets as of June 30, 2014). Provision of Rs184 million was made against classified assets. Classified assets (net of provision) amounted to Rs279 million, which constitute nearly 180% of the Modaraba's equity of Rs156.75 million. Further deterioration in quality of lending portfolio has the potential to further erode the Modaraba's equity. Given the critical nature of this issue, the management of the Modaraba is advised to expedite its recovery efforts and ensure to put in place strict credit evaluation mechanism to reduce the chances of portfolio infection in future.

*Certified to be True Copy*

**ATIF EJAZ AHMED**  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

5<sup>th</sup> Floor, State Life Building No. 2, Wallace Road, off: I. I. Chundrigar Road, Karachi  
(021) 3246 3836, 3241 3514, Fax: (021) 3241 6031, Web: [www.secp.gov.pk](http://www.secp.gov.pk)

*Key*

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3. It has been noted that JCR-VIS credit rating agency assigned long term entity rating of 'A' (single A) to First National Bank Modaraba on December 31, 2013; however, the rating has not been updated since then. Please note that in terms of Circular 4 of 2006 (relating to Guidelines for Issuance of Certificates of Musharika), credit rating is required to be updated at least once every year during the currency of issue of COMs. The management is required to expedite the process of obtaining the updated entity rating for FNBM and submit a copy of the rating for our record.
4. It has been noted that total outstanding Certificates of Musharika (COM) issued by FNBM amounted to Rs313.96 million as of March 31, 2015. In this connection, it is pertinent to note that nearly 75% of outstanding deposits (Rs235 million) were raised from two depositors, which indicates high concentration of deposits. Please share with us the management's plan to rationalize the depositor concentration going forward.

Please furnish your response to above latest by May 28, 2015.

Yours truly,

(Kashif Ghani)  
**Deputy Director**

*Copy to be kept*  
**ATIF BIAZ AHMED**  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad



# First National Bank Modaraba

(An Islamic Financial Institution)

Management By: National Bank Modaraba Management Company Limited

(A subsidiary of National Bank of Pakistan)

The Registrar,  
Modaraba Companies and Modarabas,  
Securities and Exchange Commission of Pakistan  
NIC Building, Jinnah Avenue, Blue Area,  
Islamabad.



SC/MCL/I.HR/228  
May 11, 2017

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17/5

Dear Sir,

## Exploring Appropriate Options for First National Bank Modaraba (FNBM)

Please refer to your letter No.SC/M/PRDD/FNBM/2017-121 of 27<sup>th</sup> April, 2017 wherein a reply was desired within working 15 days.

We have to submit as under:

- We are pleased to inform that the BOD of Holding Company, taking due note of the affairs of FNBM and your guidance, has passed a resolution in its meeting held on 21/4/2017 authorizing the Management Company to explore appropriate/various options for achieving cessation of Modaraba and that of the Company. This being the initial step, it shall set the process in motion in line with our discussions with you. The options may include but not limited to winding up or merger or seeking expression of interest, as appropriate.
- However, in order to select the option in best interest of all stakeholders, there are important steps to be initially taken such as the determination of the fair value of assets and liabilities, in particular that of the classified portfolio. All this is to be handled in a fair and transparent manner and therefore the possibility to hire a consultancy firm for this purpose at the appropriate stage cannot be precluded.
- You are kindly aware that our financial year is drawing to a close and the annual audited financial statements along with an independent external audit report shall be available shortly on the latest position of assets and liabilities. This information shall act as precursor to the step referred in the above para as it shall considerably narrow down our requirements and cut down on time and effort.
- In the meantime, we will be continuing our efforts to accelerate the recovery process with a view to minimizing the NPL portfolio as well as to supplement the cash position of the company, enabling us to derive the best possible value for the benefit of all stakeholders.
- In view of the above, we shall be operationally gearing up for our new challenges, in close guidance of BOD and of the Holding Company, besides other steps as detailed above. We therefore request you to kindly bear with us till middle of August, 2017 for detailed working for proposing the most suitable option. We shall in the meantime send you a monthly status report if desired.



First National Bank Modaraba

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Continuation Sheet

We would like to express here, our sincere gratitude for your kind help, guidance and cooperation in this matter.

Best regards

Abbas Azam  
CEO/MD

CC:

Mr. Qaiser Iqbal  
Additional Joint Director  
Specialized Companies Division, Supervision and Enforcement Department, SECP  
Karachi



Securities and Exchange Commission of Pakistan  
Specialized Companies Division  
Policy, Regulation and Development Department  
(Modaraba Wing)

**ANNEX-IV**

**273**

No. SC/M/PRDD/NBP/2017-160

May 30, 2017

The Chief Executive,  
National Bank Modaraba Management Company Limited,  
Manager of First National Bank Modaraba,  
5<sup>th</sup> Floor, NBP RHQ Building,  
26-McLegon Road,  
Lahore.

Subject: **Exploring Appropriate Options for First National Bank Modaraba (FNBM)**

Dear Sir,

This refers to your letter dated May 11, 2017 on the subject noted above.

2. It has been noted with concern that the management company has not come up with an appropriate exit strategy from the business of Modaraba, as deliberated upon in the meeting held on 25-04-2017. In this regard, please confirm, whether the minutes of the meeting dated 25-04-2017 have been shared with the Board of Directors of the modaraba company. If so, please provide certified copy of the minutes of the Board's meeting. Please note that the exit strategy was to be formulated and communicated to this office within 15 days from the date of the meeting.
3. In order to facilitate the management company, the Registrar Modaraba has, however, allowed it to complete the exercise, get the approval of the Board of Directors and submit the same latest by August 15, 2017.
4. Please submit a fortnightly report on the progress made in this regard. The report should reach this office within two days from the expiry of the period.
5. Please note that no further extension in this regard shall be allowed. In case of your failure to meet the requirement, necessary regulatory action will be initiated against the Modaraba Company and First National Bank Modaraba under the relevant provisions of the law.

Yours truly,

*Copy to be sent to the copy*  
**ATIF EJAZ AHMED**  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

*(Signature)*  
**(Atif Ejaz Ahmed)**  
Deputy Director

ANNEX-0274**Tauqeer Ahmad Sipra****Subject:**

FW: National Bank Modaraba

**From:** Abbas Azam [mailto:abbasazam@nbmodaraba.com]**Sent:** Friday, October 13, 2017 3:55 PM**To:** Qaiser Iqbal <qaiser.iqbal@secp.gov.pk>**Cc:** Atif Ejaz Ahmed <atif.ejaz@secp.gov.pk>**Subject:** FW: National Bank Modaraba

Dear Sir,

The details of the progress made so far in exploring options for FNBM is explained through following five steps.

- The first step in this connection was to have the latest audited accounts as on June 30, 2017 available. the external auditors have completed the audit in accordance with 'ICAP's circular 3 of 2017 regarding guidelines on the basis of not considering as going concern. The financial statements were thus prepared on the basis of estimated current realizable values of assets and liabilities. Accordingly the assets where there was a downward revision in estimate of current realizable value (amounting to Rs.39 Million in total) that has been accounted for. However where there were upward revisions (amounting to Rs. 50 Million in total) that is only disclosed in the note to the accounts. The auditors have included an emphasis of matter paragraph that the estimates could change in the future on the basis of change in circumstances or when new information becomes available.
- Secondly, the process of hiring appropriate financial consultants was initiated and some reputable chartered accountancy firms were consulted for due credibility of their advice & observance of industry standards.. The average fee quote in the proposals received was around Rs.4 Million, This was not proportionate to the work involved and way ahead of BOE expectations. NBP's nominee directors on Board advised that it shall be prudent to seek legal opinion about attraction of PPRA rules. The BOD in its meeting of 21/7/17 promptly attended to the matter, sought legal advice, reviewed the scope of work and decided to solicit quotations transparently through media hoping that with better understanding of scope the quotes shall be reasonable.
- Thirdly, on the other hand efforts for recovery from classified accounts continued forcefully and resulted in cash recoveries from defaulter parties amounting to around Rs.25 million in the last three months or so.



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- Fourthly, the regulatory authority was kept informed and the Registrar Modaraba in his letter Sep 05, 2017, on the progress made so far, made a subtle advice the BODs of both FNBM and NBP to consider merger/amalgamation of FNBM with NBP as was done in case of NBP Leasing.
- Lastly, the above letter was discussed in detail in the BOD meeting held on Oct 05, 2017, where among other things pros and cons of the advice were deliberated it has been decided to write formal letter to the NBP's BOD with details for ease of early action.. We are presently in the process of finalization of the draft of the said letter with the help of legal advisers..

We will keep you posted on any new developments in this connection and request you for your guidance in this matter.

We are grateful for the cooperation received so far.

Best regards

Abbas Azam

CEO

**ANNEX-1**



# First National Bank Modaraba

(An Islamic Financial Institution)

Management By: National Bank Modaraba Management Company Limited  
(A subsidiary Of National Bank of Pakistan)

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SCD

FNBM/LHR/179

December 13, 2017

Mr. Atif Ejaz Ahmed

Deputy Director

Securities and Exchange Commission of Pakistan

NIC Building, Jinnah Avenue, Blue Area

Islamabad

21 DEC 2017

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22/12/17

Dear Sir,

## Exploring appropriate options for First National Bank Modaraba

Please refer to your letter No.SC/M/PRDD/FNBM/2017-252 dated December 06, 2017 on the captioned subject.

As informed earlier vide our email of Nov 14, 2017 we hereby reiterate that in compliance with the directives of the Registrar Modaraba contained in his letter of September 05, 2017 the Board of Directors of the Management Company has written a formal letter to the Board of Directors of NBP regarding the proposal of the Registrar Modaraba SECP along with various other options that have been evaluated by our Board.

In this regard, your letter under reference has also been forwarded to NBP's Board for a decision as required by SECP. The response from NBP's Board is still awaited. We shall apprise you as soon as we receive a response from NBP's Board about its decision.

We continue to look forward for your support and guidance.

Best regards

*Abbas Azam*

Abbas Azam

CEO

AS per email 18/12/17



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
SPECIALIZED COMPANIES DIVISION  
POLICY, REGULATION AND DEVELOPMENT DEPARTMENT  
(MODARABA WING)

By Courier

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ANNEX-Q

No. SC/M/PRDD-ADJ/FNBM/2018-110

April 2, 2018

1. M/s. National Bank Modaraba Management Company Limited through its Chief Executive, 26-McLegon Road, Lahore.
2. Mr. Abbas Azam, Chief Executive National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.
3. Mr. Rehmat Ali Hasnie, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.
4. Mr. Khawaja Waheed Raza, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.
5. Mr. Jamal Nasim, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.
6. Mr. Aamir Amin, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.
7. Mr. Muhammad Iqbal Hussain, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.

ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

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Subject: SHOW-CAUSE NOTICE UNDER SECTION 23 OF THE MODARABA COMPANIES AND MODARABA (FLOATATION AND CONTROL) ORDINANCE, 1980 ("THE MODARABA ORDINANCE")

WHEREAS, First National Bank Modaraba ("the Modaraba") is managed by National Bank Modaraba Management Company Limited ("the Modaraba Company") and the above mentioned persons are the chief executive and directors of the Modaraba Company.

ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

N.I.C Building, Jinnah Avenue, Blue Area, Islamabad.

Ph. 9100476, PABX: 9207091-4 Ext. 333 Fax. No. 9100473, E-mail: [jawed.hussain@sec.gov.pk](mailto:jawed.hussain@sec.gov.pk)

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2. AND WHEREAS, the audited financial statements of the Modaraba for the last five years summarized below, show that the Modaraba is running in losses for a consecutive period of five years and accumulated losses of the Modaraba stood at Rs.277.62 million as on June 30, 2017 against the total Modaraba Fund of Rs.250 million, subscribed by the holders of the Modaraba certificates.

Year ended	June, 2017	June, 2016	June, 2015	June, 2014	June, 2013
	Rs. in million				
Paid up Fund	250	250	250	250	250
Profit/(Loss) for the year	(71.35)	(53.83)	(122.17)	(34.21)	(16.86)
Un-appropriated profits/ (accumulated losses)	(277.62)	(206.26)	(152.43)	(30.25)	3.95
Accumulated losses in term of percentage of Paid up fund	111%	83%	61%	12%	-

3. AND WHEREAS, as per half yearly accounts of the Modaraba for the period ended December 31, 2017, the accumulated losses of the Modaraba amounted to Rs.276.60 million which constituted 111% of total Modaraba Fund (Rs.250 million), subscribed by the holders of the Modaraba certificates. Hence, total modaraba fund has been eroded.

4. AND WHEREAS, the auditors of the Modaraba (M/s. Riaz Ahmad & Company, Chartered Accountants), in their audit report to the members for the year ended June 30, 2017 have drawn attention to note 1.1 of the annual accounts, which state that the Modaraba is no longer a going concern, therefore, the financial statements have been prepared on the basis of estimated realizable/ settlement values of assets and liabilities respectively. This resulted in recognition of additional provision of Rs39.074 million based on the subjective evaluation of non-performing receivables.

5. AND WHEREAS, the issue of financial condition of the Modaraba and accumulated losses was taken up with the Modaraba Company multiple times. Initially, vide letter dated May 13, 2015, the Chief Executive of the Modaraba was advised to provide management's plan for stemming the losses and to enhance Modaraba's equity. Later on, in a number of meetings held with the Chief Executive and directors of the Modaraba Company, the worsening financial position of the Modaraba was discussed. Despite providing sufficient time and opportunity, the Modaraba Company and its Board of Directors failed to arrest the losses. Besides others, the options to revive the business operations and ameliorate the financial position of the Modaraba through injection of fresh equity or sub-ordinated funds or low cost funding from the National Bank of Pakistan - the holding company ("NBP") were also discussed with the CEO but no action was taken.

ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

N.I.C Building, Jinnah Avenue, Blue Area, Islamabad.

Ph. 9100476, PABX: 9207091-4 Ext. 385 - Fax. No. 9100473, E-mail: [jawed.hussain@secp.gov.pk](mailto:jawed.hussain@secp.gov.pk)

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6. AND WHEREAS, the Modaraba Company vide letter dated May 11, 2017 informed that the Board of directors of NBP passed a resolution in its meeting held on April 21, 2017, authorizing the Modaraba Company to explore appropriate options for achieving cessation of business of the Modaraba and that of the Modaraba Company. The options may include but not limited to winding up or merger or seeking expression of interest, as appropriate. The Chief Executive of the Modaraba vide letter dated May 30, 2017 was advised to come up with an exit strategy, approved by the Board of Directors and submit the same latest by August 15, 2017.

7. AND WHEREAS, the Board of Directors of the Modaraba Company vide letter dated September 5, 2017, followed by a reminder dated October 5, 2017, was asked to submit the proposed exit strategy within 15 days. The Board of Directors was also advised to consider the option of merger of the Modaraba in to NBP in the same manner as NBP Leasing Limited was merged into NBP.

8. AND WHEREAS, the chief executive of Modaraba Company, vide his email dated October 13, 2017 informed that the option of merger/amalgamation of the Modaraba with NBP was discussed in a meeting of the Board of Directors of the Modaraba Company, held on October 05, 2017, where among other things, pros and cons of the option were deliberated and it was decided to write a formal letter to the NBP's Board of Directors in this regard. The Modaraba Company vide letter dated December 18, 2017 informed that the matter was submitted to the Board of Directors of NBP and the decision was still awaited.

9. AND WHEREAS, since June 2015, considerable time has been granted to the management of the Modaraba to come-up with a plan for equity injection through right or otherwise, arrange subordinated loan from sponsors or to devise any other exit strategy. However, no concrete measure has been taken to decide the future course of action for the Modaraba. As of the date the Modaraba Company has not conveyed the final decision regarding exit strategy.

10. AND WHEREAS, section 23 of the Modaraba Ordinance *inter alia*, stipulates:

"23. Circumstances in which modaraba may be wound up by the Tribunal.- (1) A modaraba shall be wound up by the Tribunal on an application made by the Registrar if- ...

(ii) in the case of any modaraba, the Registrar has declared that:-

(b) the accumulated losses of the modaraba exceed fifty per cent of the total amount subscribed by the holders of the Modaraba Certificates;..."

ATIF ELIAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

N.I.C Building, Jinnah Avenue, Blue Area, Islamabad.

Ph. 9100476, PABX: 9207091-4 Ext. 385 - Fax. No. 9100473, E-mail: [jawed.hussain@secp.gov.pk](mailto:jawed.hussain@secp.gov.pk)

11. AND WHEREAS, the accumulated losses of the Modaraba as of June 30, 2017 (Rs.277.60 million) and as per half yearly reviewed accounts as of December 31, 2017 (Rs. 276.60 million) are more than 50% of the total amount subscribed by the holders of the Modaraba Certificates, and have eroded 111% of the paid up fund of the Modaraba. It appears that as a result of erosion of the paid up fund, the viability of the Modaraba to continue its operations as going concern is severely doubtful due to recurring losses and its continuously deteriorating financial position. The auditor has already formed the same opinion on the basis of financial statements of the Modaraba for the year ended on June 30, 2017.
12. NOW, THEREFORE, you are hereby called upon to show cause in writing within ten days from the date of receipt of this notice as to why proceedings for winding up of the Modaraba should not be initiated in terms of section 23(1)(ii)(b) of the Modaraba Ordinance.
13. You are hereby directed to appear before the undersigned on April 16, 2018 at my office at 5<sup>th</sup> Floor, NiC Building, Jinnah Avenue, Blue Area, Islamabad at 10 A.M., either personally or through a Representative.
14. If you wish be represented by a Representative, please ensure that the authorizing instrument (a Board's resolution on behalf of the modaraba company and power of attorney on behalf of directors in their individual capacity) is submitted to this office along with your reply to this notice on before 10.4.2018 . Please note that any reply submitted by a representative without an appropriate authorizing instrument should not be taken into consideration for the purposes of the proceedings.
15. All documents submitted by you in support of the reply must be duly authenticated.
16. The video link facilities are available in the office of SECP in the city in which your registered office is situated. In case you wish to avail this option please inform the undersigned in writing on or before April 10, 2018 so that appropriate arrangements may be made in this regard.
17. Please note that you will be liable under the law for any concealment of any evidence or misstatement made in response to this show cause notice.
18. Please acknowledge the receipt of this notice through return fax at the number provided below.

**ATIF EJAZ AHMED**  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

Certified to be True Copy

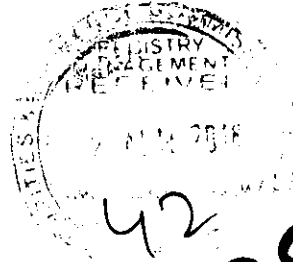
**(Jawed Hussain)**  
Registrar

Modaraba Companies and Modaraba

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**ANNEX-K**  
**National Bank Modaraba Management Company Ltd.**  
(A Subsidiary Of National Bank Of Pakistan)



FNBM/2018/ 29  
April 10, 2018

**The Registrar Modaraba**  
Securities and Exchange Commission of Pakistan  
NIC Building Jinnah Avenue Blue Area  
Islamabad

Dear Sir, **Show Cause Notice u/s 23 of Modaraba Companies and Modaraba (Floatation & Control) Ordinance 1980**

This is with reference to the notice vide your letter No.SC/M/PRDD-ADJ/FNBM/2018-110 dated April 02, 2018 whereby the Management Company & its Directors have been called upon to show cause in writing as to why proceedings for winding up of the Modaraba should not be initiated in terms of section 23(1)(ii)(b) of the Modaraba Ordinance and some specific dates have been given seeking compliance.

While the Board of Directors respects the reference to the letter of law as above, but feels very strongly that reasons for not initiating this extreme action need a careful appraisal at all ends. Firstly, you shall kindly note that the parent bank does appreciate the importance of this business and has been debating on possibilities for injection of further funds for an early turn around. This is a material & recent development. This important matter referred to NBP Board after SECP's observation, is now in their active consideration. It will, therefore, be only fair to give some more time for the decision, which by all counts is not be an easy one.

You would certainly appreciate that besides above there are several rational reasons for not initiating winding up proceedings of the Modaraba at this point of time. We list some of the major reasons as follows:

1. It has been pointed out that First National Bank Modaraba (FNBM) has been incurring losses since 2013. The sole biggest reason of losses is the charge of provisioning to keep FNBM in full compliance with SECP's Prudential Regulations for Modarabas. It is common knowledge that there is no easy recipe for early settlement of legacy issues concerning the non-performing corporate clients mainly in the textile sector. On the other hand FNBM's small-ticket vehicle financing portfolio remained quite regular throughout and as a result of which FNBM has been earning operating profits almost

Dr. E. J. Z. AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

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Page 1 of 4



consistently since 2013. We reproduce the table presented in the Para 2 of the notice with figures of operating profits and provisioning added as under:

YEAR ENDED	JUNE, 2017	JUNE, 2016	JUNE, 2015	JUNE, 2014	JUNE, 2013
	<b>Rs. In million</b>				
Paid up Fund	250	250	250	250	250
Operating profit	16.57	12.32	(9.04)	(1.69)	28.71
Provision / impairment for the year	(87.93)	(66.15)	(113.13)	(32.53)	(45.57)
Profit/(Loss) for the year	(71.35)	(53.83)	(122.17)	(34.21)	(16.86)
Un-appropriated profits/ (accumulated losses)	(277.62)	(206.26)	(152.43)	(30.25)	3.95
Accumulated losses in term of percentage of Paid up fund	111%	83%	61%	12%	-

2. We have filed recovery suits against all stuck-up non-performing accounts, and maximum practicable legal tools, including filing of criminal complaints wherever possible, are being exercised in this respect. The legal proceedings are at various stages and under close follow up. A Committee of the Board comprising of directors has also been dedicated to oversee the legal proceedings of these suits on regular intervals. The Committee meets with dealing officials and the learned counsels regularly to monitor recovery process. Moreover a detailed status of classified accounts and of legal proceedings there against is regularly communicated to the SECP every month on their prescribed format.

FNBM is, as a policy, desisting from doing fresh financing since June 2016 and is primarily involved in realizing recoveries from performing and non-performing portfolio. The strategy has worked for the Modarba and as a result the addition of new default cases has stopped and the classified portfolio has been reduced to Rs.450 M in March 2018.

It may also be mentioned that as a conscious policy the FNBM has paid off all market liabilities from its resources so as to keep its & parent's image intact and to fend off any pressure on the regulatory bodies.





**National Bank Modaraba Management Company Ltd.**  
(A Subsidiary Of National Bank Of Pakistan)

In case SECP were to apply the letter of law and initiate winding up proceedings and appoint a liquidator for realization of FNBM's assets it would then be doing the same exercise that the management has started since last one year and a half albeit through hired resource totally unaware of the background. There is a real danger that with the discontinuation of present efforts at FNBM level & NBP level, to bring FNBM back into shape shall be frustrated probably forever.

SECP Proposed action would only make any difference if a liquidator can be appointed who can expedite the legal cases and at lower per annum expenses. Except for corporate overheads of running a listed entity, which we have already reduced to minimum, there is little room for curtailing the expenses. A marginal reduction in expenses may not make any material difference in recouping the value for the certificate holders.

SECP, we earnestly hope, shall not take such risks and be well advised to follow the spirit of law in ensuring FNBM's gradual recovery as being worked out at its relevant forums.

3. In your letter of September 05, 2017 addressed to the Board with CC to the President NBP you appreciated the fact that general public has made investment in FNBM on the basis of their trust in NBP;

**QUOTE** *It will not be out of place to mention that the general public had made the investment in the Modaraba keeping mind that the parent body on the back of the Modaraba is National Bank of Pakistan, a bank owned and controlled by the Government of Pakistan. In this way, the image of the Government of Pakistan is at stake. It is therefore necessary to protect the interest of the certificate holders so to save the image of the Government of Pakistan as well the National Bank.* **UNQUOTE**

The Board of the Management Company redirected your said letter to the Board of Directors of NBP vide a letter dated November 07, 2017 along with its own evaluation of various options for the way forward. The letter was placed in the agenda of NBP's board meeting of November 30, 2017, but the matter was deferred for next meeting for discussion. Since then the matter has regularly been placed on the agenda of NBP's Board Meetings. In the latest meeting a proposal by NBP's management for injection of reasonable funds was deliberated upon at length. As a result the Board assigned the task to one of its directors to present a report within 2 months on FNBM's present



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**National Bank Modaraba Management Company Ltd.**  
(A Subsidiary Of National Bank Of Pakistan)

situation and possible options to move forward. It is now expected to be discussed in the Board meeting-likely to be held by end- April 2018.

In case NBP decides to inject reasonable funds so as to raise the book value of FNBM beyond permitted limit, it shall avoid the applicability of Section 23. This would also be in line with the spirit of your advice related to the image and support of NBP. With the new funds and based on past experience a new business plan of investing in small ticket vehicle financing is being considered. This will generate new income, which coupled with reversal in provisioning from recoveries from classified portfolio in the due course, is expected to generate enough profits within around next two years or so that payment of cash dividends would become possible.

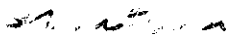
Kindly note that, this matter pertains to NBP's subsidiary, NBP has to, therefore, follow the SBP's Regulations, wherein matters related to subsidiary of a bank have to be decided by the Board. As such a major decision like winding-up, merger or recapitalization of its subsidiary comes in the ambit of the authority of the Board of NBP and needs due time.

As you had kindly acknowledged in your letter of Sep 05, 2017 that the certificate holders are looking towards NBP for the safeguard of the value of their investments. Now that the matter is under the deliberation of NBP's Board and a decision from the Board is expected within a couple of months and based on other positive facts mentioned above, it may be in the best interest of all the stakeholders that SECP revisits the initiation of winding up proceedings for the time being and give reasonable time to NBP's Board to come up with its decision.

In view of the above, kindly recall the notice and allow reasonable time for our final plans for FNBM.

Regards

**For and on Behalf of the Board of Directors**

  
Abbas Azam  
CEO

  
ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

Page 4 of 4

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# First National Bank Modaraba

(An Islamic Financial Institution)

Managed By: National Bank Modaraba Management Company Limited  
(A subsidiary of National Bank of Pakistan)

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The Registrar,  
Modaraba Companies and Modarabas,  
Securities and Exchange Commission of Pakistan  
NIC Building, Jinnah Avenue, Blue Area  
Islamabad



FNBM/LHR/ 96.5  
October 2, 2018

Pl. Visit up  
note for  
approval

## Application for approval for Recapitalization of First National Bank Modaraba by Rs. 300 m

In view of the accumulated losses in First National Bank Modaraba (hereinafter 'the modaraba'), instead of winding up the modaraba (as required by the Commission), our parent company National Bank of Pakistan has agreed to invest Rs. 300 million in the modaraba at par, i.e. against new 30 million modaraba certificates of Rs. 10 each.

We are thus writing to seek your approval under Rule 20 (b) of the Modaraba Companies and Modaraba Rules 1981 for increasing our Modaraba Fund to the extent of Rs. 300 million by issuing 30 million new modaraba certificates of Rs. 10 each at par to our parent company National Bank of Pakistan (NBP).

The new Modaraba Certificates being issued will not be offered to existing certificate holders as the company plans to issue the said certificates to NBP otherwise than rights under Section 83(1)(b) of Companies Act 2017. Even otherwise, in view of accumulated losses in the modaraba, no current modaraba certificate holders will be willing to subscribe at par. NBP's subscription of Rs. 300m at par will thus forthwith increase the existing value of current certificate holders.

The new Modaraba Certificates proposed to be issued to NBP shall rank *pari passu* with the existing certificates in all matters including the right to such bonus or right issue and dividend as may be declared subsequent to the date of issue of the new Modaraba Certificates.

NBP has already intimated PSX about its decision to invest Rs. 300m in the modaraba. The company further undertakes to comply with all the applicable formalities and requirements of PSX and CDC.

In view of above, we would really appreciate your approval for issuance of new 30 million modaraba certificates at par to NBP otherwise than right. Upon receipt of your approval, we will proceed to complete the transaction at the earliest.

We are enclosing a challan for Rs. 300,000, being the applicable fee for the said issue of modaraba certificates under Clause X(9) of Seventh Schedule of Companies Act 2017.

Yours truly,

For and on behalf of Board of Directors

*Abbas Azam*  
Abbas Azam  
CEO

CC: Mr. Nazif Ahmed, Ahmed and Qazi & Co, Advocates & Legal Consultants

D4 No 47 dt 5.10.2018

Annexures:

1. Balance Sheet of Modaraba for the last three years
2. Copies of SECP/your letters dated Sep 05, 2017, Oct 05, 2017, April 02, 2018, and May 28, 2018
3. NBP Letter dated July 13, 2018 to PSX intimating about their decision to invest Rs. 300 million in the modaraba
4. Extract of Management company's board resolution approving issuance of 30 million modaraba certificates at par to NBP otherwise than right

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SECP Challan

M-2018-109674

02

Bank Branch	LAHORE, MCB - Nila Gumbad[176]	Date	01-10-2018
Account Title	Securities and Exchange Commission of Pakistan	Account No.	0183089871000097
Name of Company	NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED	Registration No.	0028061

Receipt under Companies Act, 2017

Code No.	Head of Accounts	Amount (Rs)
61051	Registration Fee for New Incorporation	
61053	Filing Fee	
61055	Mortgages / Charge Registration	
61054	Additional Filing Fee	
61056	Availability of Name Fee	
61057	Copying Fee	
61058	Inspection Fee	
61059	License Fee - U/S 42 / Renewal Fee	
61060	Application Fee	300000.00
61063	Application for extension in AGM	
61062	Miscellaneous Fee (Pls. Specify)	
61052	Enhancement of Capital Fee (Form - 7)	
61061	Appeal/Complaint Fee	
61064	Application for Capital issue U/S 86	
61063	Application for extension in AGM	
24071	CLD Penalty	
24075	Penalty imposed by Enforcement	
52403	Bank Collection Charges (To Be Paid By Applicant)	25.00
Total		300025.00

Payment Details	
Cheque No.	
Drawn On	
Rupees (in words)	Three Hundred Thousand Twenty Five Rupees Only
Name of Depositor	
Depositor Signature	Teller Signature & Bank Stamp

Original

- a. Payment may kindly be deposited in the bank within a month of the date appearing in date column of challan.  
b. Photocopy of the challan shall not be entertained, kindly print separate challans for each company/ Form.  
c. Cutting and erasing of any field on challan is not allowed.  
d. Challan number and amount of money deposited must be clearly legible on a printed challan.  
e. If system erroneously generates a challan without company name or challan No. then kindly do not deposit that challan into bank and contact concerned CRO.



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
SPECIALIZED COMPANIES DIVISION  
POLICY, REGULATION AND DEVELOPMENT DEPARTMENT  
(MODARABA WING)

288

No. SCD/M/PRDD/FNBM/2017- 248

Islamabad, September 05, 2017

- |  |  |
|--|--|
| 1. Rehmat Ali Hasnie<br>Director,<br>National Bank Modaraba Management<br>Company Limited, 26-McLegon Road,<br>Lahore.       | 2. Mr. Abbas Azam,<br>Chief Executive<br>National Bank Modaraba Management<br>Company Limited, 26-McLegon Road,<br>Lahore.       |
| 3. Khawaja Waheed Raza,<br>Director,<br>National Bank Modaraba Management<br>Company Limited,<br>26-McLegon Road,<br>Lahore. | 4. Mr. Aamir Amin,<br>Director,<br>National Bank Modaraba Management<br>Company Limited, 26-McLegon Road,<br>Lahore.             |
| 5. Mr. Jamal Nasim,<br>Director,<br>National Bank Modaraba Management<br>Company Limited, 26-McLegon Road,<br>Lahore.        | 6. Mr. Muhammad Iqbal Hussain,<br>Director,<br>National Bank Modaraba Management<br>Company Limited, 26-McLegon Road,<br>Lahore. |

Subject: Exploring appropriate options for First National Bank Modaraba

This is with reference to your letter No. NBMMCL/LHR/048 dated August 15, 2017 on the subject noted above.

- The position with regard to formulation of exit strategy for cessation of the business of First National Bank Modaraba conveyed by you is disappointing. Most of the contents of the letter under reference are either repetition of earlier correspondence or irrelevant.
- You may recall that in your meeting held with the undersigned on 25.4.2017, the financial performance of First National Bank Modaraba was discussed in detail and following position was noted:

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Rs. in Million

Particulars	FY 31-Dec-2016	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011
Total assets	681.54	841.30	1,248.35	1,692.66	2,003.44	1,962.97	2,167.65
Total Equity	57.66	87.69	141.52	263.70	297.91	339.77	337.20
Total operating & other income	108.86	314.37	451.40	558.12	567.09	605.82	473.56
Net profit/(loss) after tax	(30.03)	(53.83)	(122.17)	(34.21)	(16.86)	27.64	30.67
Earnings/(loss) per certificate	(1.20)	(2.15)	(4.89)	(1.37)	(0.67)	1.11	1.23
Return on assets (%)	(4.40)	(6.39)	(9.76)	(2.01)	(0.83)	1.38	1.42
Return on Equity (%)	(12.01)	(21.52)	(87.14)	(12.92)	(5.65)	8.0	9.02
Dividend paid (%)	Nil	Nil	Nil	Nil	Nil	10.0	10.0
Unappropriated profit / (Accumulated loss)	(236.30)	(206.26)	(152.43)	(30.25)	3.96	45.82	48.71
Unappropriated profit / (Accumulated loss) net of reserves	(192.34)	(162.31)	(108.47)	(33.70)	47.91	89.77	98.71
Accumulated loss (net of reserves) as % of paid up capital of Rs.	76.94	64.92	43.38	—	—	—	—

4. It was noticed with concern that as per half yearly reviewed accounts of December 2016, financial position of the Modaraba has further deteriorated. It recorded an after tax loss of Rs30 million during six months period leading to accumulated losses of Rs236.30 million. Total assets and equity of the Modaraba reduced to Rs681.54 million and Rs57.66 million as of December 31, 2016 from Rs2,167.65 million and Rs337.20 million as of June 30, 2011, respectively. The mounting losses have resulted in negative return on assets, negative return on equity and negative EPS for the past four and a half years while no dividend paid out to the certificate holders since FY2013.

5. The classified portfolio of the Modaraba reported to be Rs489.16 million as at December 31, 2016, which was 50.44% of gross assets while the classified assets net of provisions were 382.43% of equity as of December 31, 2016.

6. The gist of the above is that all the financial indicators showing a continuous declining trend and worst financial position of the Modaraba.

7. In the meeting, in light of worsening financial performance, you were given 15 days' time to come up with an exit strategy. In response thereof, you, vide your letter dated 11.5.2017, had sought further time upto middle of August 2017 with a firm commitment of proposing the most suitable option. Your request was acceded to despite the fact that First National Bank Modaraba was not doing any business, the holding

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company-National Bank of Pakistan had already decided the cessation of business of the Modaraba and there was no justification of delaying the distribution of assets to the certificate holders.

8. However, you have not yet taken a basic decision whether the Modaraba should be wound up or merged into any other Modaraba or it should be given to some other management company. You are still in the phase of appointing a financial consultant to carry out the valuation of the assets, which shows non-serious attitude of the Board of Directors of the modaraba company. In fact, you have lost period of four months (15 July to 15 August 2017) just for nothing.

9. You may note that First National Bank Modaraba is not doing any business for a long time and there is a need to distribute the available assets amongst the certificate holders as quickly as possible. Every coming day shall erode the equity of the Modaraba and consequent reduction in the realizable value of the investment of the certificate holders.

10. It will not be out of place to mention that the general public had made the investment in the Modaraba keeping mind that the parent body on the back of the Modaraba is National Bank of Pakistan, a bank owned and controlled by the Government of Pakistan. In this way, the image of the Government of Pakistan is at stake. It is therefore necessary to protect the interest of the certificate holders so to save the image of the Government of Pakistan as well the National Bank. In order to achieve the objective, the board of directors of the modaraba company as well the board of National Bank may consider the merger of the Modaraba into National Bank in the same manner the NBP Leasing was merged.

11. You are hereby directed to immediately call a meeting of the board of directors of the Modaraba company without further delay and approach the Board of directors of National Bank to consider the above proposal so that an immediate relief is provide to the certificate holders of the Modaraba.

  
(Jawed Hussain)  
Registrar  
Modaraba Companies and Modaraba

Copy to:

The President,  
National Bank of Pakistan  
Head Office  
Karachi





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
SPECIALIZED COMPANIES DIVISION  
POLICY, REGULATION AND DEVELOPMENT DEPARTMENT  
(MODARABA WING)

No. SCD/M/PRDD/FNBM/2017-279

Islamabad, October 05, 2017

1. Rehmat Ali Hasnic,  
Director,  
National Bank Modaraba Management  
Company Limited, 26-McLegon Road,  
Lahore.
2. Mr. Abbas Azam,  
Chief Executive  
National Bank Modaraba Management  
Company Limited, 26-McLegon Road,  
Lahore.
3. Khawaja Waheed Raza,  
Director,  
National Bank Modaraba Management  
Company Limited,  
26-McLegon Road,  
Lahore.
4. Mr. Aamir Amin,  
Director,  
National Bank Modaraba Management  
Company Limited, 26-McLegon Road,  
Lahore.
5. Mr. Jamal Nasim,  
Director,  
National Bank Modaraba Management  
Company Limited, 26-McLegon Road,  
Lahore.
6. Mr. Muhammad Iqbal Hussain,  
Director,  
National Bank Modaraba Management  
Company Limited, 26-McLegon Road,  
Lahore.

Subject: Exploring appropriate options for First National Bank Modaraba

Please refer to our letter dated September 05, 2017 on the captioned subject (copy attached).

2. We have not heard anything on the aforesaid matter despite lapse of one month. You are hereby called upon to submit your response regarding merger/amalgamation of FNBM with NBP within a period of seven days, positively.

Atif Ejaz Ahmed  
(Deputy Director)

NIC Building, Jinnah Avenue, Blue Area, Islamabad.

PABX: 9207091-4 Ext. 150 - Fax. No. 9218590, E-mail: [atif.ejaz@secp.gov.pk](mailto:atif.ejaz@secp.gov.pk)

By Courier



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
SPECIALIZED COMPANIES DIVISION  
POLICY, REGULATION AND DEVELOPMENT DEPARTMENT  
(MODARABA WING)

No. SC/M/PRDD-ADI/FNBM/2018-110

April 2, 2018

1. M/s. National Bank Modaraba Management Company Limited through its Chief Executive, 26-McLegon Road, Lahore.
2. Mr. Abbas Azam, Chief Executive National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.
3. Mr. Rehmat Ali Hasnie, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.
4. Mr. Khawaja Waheed Raza, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.
5. Mr. Jamal Nasim, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.
6. Mr. Aamir Amin, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.
7. Mr. Muhammad Iqbal Hussain, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.

Subject: SHOW-CAUSE NOTICE UNDER SECTION 23 OF THE MODARABA COMPANIES AND MODARABA (FLOATATION AND CONTROL) ORDINANCE, 1980 ("THE MODARABA ORDINANCE")

WHEREAS, First National Bank Modaraba ("the Modaraba") is managed by National Bank Modaraba Management Company Limited ("the Modaraba Company") and the above mentioned persons are the chief executive and directors of the Modaraba Company,

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2. AND WHEREAS, the audited financial statements of the Modaraba for the last years summarized below, show that the Modaraba is running in losses for a consecutive period of years and accumulated losses of the Modaraba stood at Rs.277.62 million as on June 30, 2017 against the total Modaraba Fund of Rs.250 million, subscribed by the holders of the Modaraba certificates.

Year ended	June, 2017	June, 2016	June, 2015	June, 2014	June, 2013
	Rs. in million				
Paid up Fund	250	250	250	250	250
Profit/(Loss) for the year	(71.35)	(53.83)	(122.17)	(34.21)	(16.86)
Un-appropriated profits/ (accumulated losses)	(277.62)	(206.26)	(152.43)	(30.25)	3.95
Accumulated losses in term of percentage of Paid up fund	111%	83%	61%	12%	-

3. AND WHEREAS, as per half yearly accounts of the Modaraba for the period ended December 31, 2017, the accumulated losses of the Modaraba amounted to Rs.276.60 million which constituted 111% of total Modaraba Fund (Rs.250 million), subscribed by the holders of the Modaraba certificates. Hence, total modaraba fund has been eroded.

4. AND WHEREAS, the auditors of the Modaraba (M/s. Riaz Ahmad & Company, Chartered Accountants), in their audit report to the members for the year ended June 30, 2017 have drawn attention to note 1.1 of the annual accounts, which state that the Modaraba is no longer a going concern, therefore, the financial statements have been prepared on the basis of estimated realizable/ settlement values of assets and liabilities respectively. This resulted in recognition of additional provision of Rs39.074 million based on the subjective evaluation of non-performing receivables.

5. AND WHEREAS, the issue of financial condition of the Modaraba and accumulated losses was taken up with the Modaraba Company multiple times. Initially, vide letter dated May 13, 2015, the Chief Executive of the Modaraba was advised to provide management's plan for stemming the losses and to enhance Modaraba's equity. Later on, in a number of meetings held with the Chief Executive and directors of the Modaraba Company, the worsening financial position of the Modaraba was discussed. Despite providing sufficient time and opportunity, the Modaraba Company and its Board of Directors failed to arrest the losses. Besides others, the options to revive the business operations and ameliorate the financial position of the Modaraba through injection of fresh equity or sub-ordinated funds or low cost funding from the National Bank of Pakistan - the holding company ("NBP") were also discussed with the CEO but no action was taken.

X

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6. AND WHEREAS, the Modaraba Company vide letter dated May 11, 2017 informed that the Board of directors of NBP passed a resolution in its meeting held on April 21, 2017, authorizing the Modaraba Company to explore appropriate options for achieving cessation of business of the Modaraba and that of the Modaraba Company. The options may include but not limited to winding up or merger or seeking expression of interest, as appropriate. The Chief Executive of the Modaraba vide letter dated May 30, 2017 was advised to come up with an exit strategy, approved by the Board of Directors and submit the same latest by August 15, 2017.

7. AND WHEREAS, the Board of Directors of the Modaraba Company vide letter dated September 5, 2017, followed by a reminder dated October 5, 2017, was asked to submit the proposed exit strategy within 15 days. The Board of Directors was also advised to consider the option of merger of the Modaraba in to NBP in the same manner as NBP Leasing Limited was merged into NBP.

8. AND WHEREAS, the chief executive of Modaraba Company, vide his email dated October 13, 2017 informed that the option of merger/amalgamation of the Modaraba with NBP was discussed in a meeting of the Board of Directors of the Modaraba Company, held on October 05, 2017, where among other things, pros and cons of the option were deliberated and it was decided to write a formal letter to the NBP's Board of Directors in this regard. The Modaraba Company vide letter dated December 18, 2017 informed that the matter was submitted to the Board of Directors of NBP and the decision was still awaited.

9. AND WHEREAS, since June 2015, considerable time has been granted to the management of the Modaraba to come-up with a plan for equity injection through right or otherwise, arrange subordinated loan from sponsors or to devise any other exit strategy. However, no concrete measure has been taken to decide the future course of action for the Modaraba. As of the date the Modaraba Company has not conveyed the final decision regarding exit strategy.

10. AND WHEREAS, section 23 of the Modaraba Ordinance *inter alia*, stipulates:

"23. Circumstances in which modaraba may be wound up by the Tribunal.- (1) A modaraba shall be wound up by the Tribunal on an application made by the Registrar if- ...

(ii) In the case of any modaraba, the Registrar has declared that:-

(b) the accumulated losses of the modaraba exceed fifty per cent of the total amount subscribed by the holders of the Modaraba Certificates;..."

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11. AND WHEREAS, the accumulated losses of the Modaraba as of June 30, 2017 (Rs.277.60 million) and as per half yearly reviewed accounts as of December 31, 2017 (Rs. 276.60 million) are more than 50% of the total amount subscribed by the holders of the Modaraba Certificates, and have eroded 111% of the paid up fund of the Modaraba. It appears that as a result of erosion of the paid up fund, the viability of the Modaraba to continue its operations as going concern is severely doubtful due to recurring losses and its continuously deteriorating financial position. The auditor has already formed the same opinion on the basis of financial statements of the Modaraba for the year ended on June 30, 2017.

12. NOW, THEREFORE, you are hereby called upon to show cause in writing within ten days from the date of receipt of this notice as to why proceedings for winding up of the Modaraba should not be initiated in terms of section 23(1)(ii)(b) of the Modaraba Ordinance.

13. You are hereby directed to appear before the undersigned on April 16, 2018 at my office at 5<sup>th</sup> Floor, NIC Building, Jinnah Avenue, Blue Area, Islamabad at 10 A.M., either personally or through a Representative.

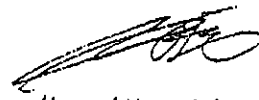
14. If you wish be represented by a Representative, please ensure that the authorizing instrument (a Board's resolution on behalf of the modaraba company and power of attorney on behalf of directors in their individual capacity) is submitted to this office along with your reply to this notice on before 10.4.2018. Please note that any reply submitted by a representative without an appropriate authorizing instrument should not be taken into consideration for the purposes of the proceedings.

15. All documents submitted by you in support of the reply must be duly authenticated.

16. The video link facilities are available in the office of SECP in the city in which your registered office is situated. In case you wish to avail this option please inform the undersigned in writing on or before April 10, 2018 so that appropriate arrangements may be made in this regard.

17. Please note that you will be liable under the law for any concealment of any evidence or misstatement made in response to this show cause notice.

18. Please acknowledge the receipt of this notice through return fax at the number provided below.



(Jawed Hussain)

Registrar

Modaraba Companies and Modaraba

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By Courier



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
SPECIALIZED COMPANIES DIVISION  
POLICY, REGULATION AND DEVELOPMENT DEPARTMENT  
(MODARABA WING)

No. SC/M/PRDD-ADJ/FNBM/2018- 151

May 28, 2018

- |  |   |
|--|---|
| 1. M/s. National Bank Modaraba Management Company Limited through its Chief Executive, 26-McLegon Road, Lahore.      | 2. Mr. Abbas Azam, Chief Executive National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.    |
| 3. Mr. Rehmat Ali Hasnie, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.      | 4. Mr. Khawaja Waheed Raza, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore. |
| 5. Mr. Jamal Nasim, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.            | 6. Mr. Aamir Amin, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.          |
| 7. Mr. Muhammad Iqbal Hussain, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore. | 8. Mr. Jamal Baqar, Director, National Bank Modaraba Management Company Limited, 26-McLegon Road, Lahore.         |

Subject: FINAL HEARING IN THE MATTER OF SHOW-CAUSE NOTICE DATED APRIL 2, 2018 ISSUED UNDER SECTION 23 OF THE MODARABA COMPANIES AND MODARABA (FLOATATION AND CONTROL) ORDINANCE, 1980 ("THE MODARABA ORDINANCE")

Whereas, in the hearing before the Registrar Modaraba held on May 2, 2018, in the matter of show cause notice dated April 2, 2018, the Board of Directors of National Bank Modaraba Management Company Limited (NBMMCL) had informed that the parent company of NBMMCL

N.I.C Building, Jinnah Avenue, Blue Area, Islamabad.

Ph. 9100479, PABX: 9207091-4 Ext. 233 - Fax. No. 9100473, E-mail: [shahid.mahmood@secp.gov.pk](mailto:shahid.mahmood@secp.gov.pk)

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namely National Bank of Pakistan (NBP) is interested to revive Frist National Bank Modaraba and willing to inject Rs.300 million in the equity of Frist National Bank Modaraba.

2. And whereas, the Board of NBMMCL had given an assurance to the Registrar Modaraba for submission of a firm commitment from the National Bank of Pakistan (NBP) before the month of Ramadan for injecting Rs.300 million in the equity of Frist National Bank Modaraba. On the basis of the said assurance and as requested by the Modaraba Company and its Board of Directors, further proceedings in the matter were kept in abeyance till the start of the month of Ramadan.

3. And whereas, through an email dated May 17, 2018, received from the Chief Executive of the Modaraba Company, it was informed that the matter regarding the recapitalization of the Modaraba had been moved through circulation to the NBP Board Members and that Board of Directors of NBP would like to deliberate upon this matter in the upcoming Board Meeting rather than by circulation.

3. And whereas, through a return email by this office dated 21.5.2018, it was informed to the Chief Executive that that matter cannot be lingered on for an indefinite time and he was advised to act proactively to seek the decision of NBP on recapitalization of the Modaraba, as promised by the Board of NBMMCL in the hearing held on May 2, 2018. He was further advised for an immediate response but not later than May 25, 2018. He was further advised to provide a certified copy of the circular resolution sent to the Board of NBP, by return email but the said email has not yet responded by the Chief executive or any of the members of the Board of NBMMCL.

4. And whereas, any of the member of the Board of NBMMCL or its chief executive failed to furnish the requisite document containing the firm commitment of NBP for the injection of Rs.300 million in the equity of Frist National Bank Modaraba within the timeline promised by them and even till date.

5. Now, therefore, final hearing of the subject show cause is fixed on June 5, 2018 before the Registrar Modaraba in his office at 5<sup>th</sup> Floor, NIC Building, Jinnah Avenue, Blue Area, Islamabad at 10 A.M. You are hereby called upon to appear before the Registrar Modaraba on the given date and time, either personally or through an authorized representative. Please ensure that the authorizing instrument (a Board's resolution on behalf of the Modaraba Company or power of attorney on behalf of directors in their individual capacity) is submitted to this office prior to the date of hearing.

Yours truly,

(SHAHID MAHMOOD)  
Additional Director

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11. AND WHEREAS, the accumulated losses of the Modaraba as of June 30, 2017 (Rs.277.60 million) and as per half yearly reviewed accounts as of December 31, 2017 (Rs. 276.60 million) are more than 50% of the total amount subscribed by the holders of the Modaraba Certificates, and have eroded 111% of the paid up fund of the Modaraba. It appears that as a result of erosion of the paid up fund, the viability of the Modaraba to continue its operations as going concern is severely doubtful due to recurring losses and its continuously deteriorating financial position. The auditor has already formed the same opinion on the basis of financial statements of the Modaraba for the year ended on June 30, 2017.

12. NOW, THEREFORE, you are hereby called upon to show cause in writing within ten days from the date of receipt of this notice as to why proceedings for winding up of the Modaraba should not be initiated in terms of section 23(1)(ii)(b) of the Modaraba Ordinance.

13. You are hereby directed to appear before the undersigned on April 16, 2018 at my office at 5<sup>th</sup> Floor, NIC Building, Jinnah Avenue, Blue Area, Islamabad at 10 A.M., either personally or through a Representative.

14. If you wish be represented by a Representative, please ensure that the authorizing instrument (a Board's resolution on behalf of the modaraba company and power of attorney on behalf of directors in their individual capacity) is submitted to this office along with your reply to this notice on before 10.4.2018. Please note that any reply submitted by a representative without an appropriate authorizing instrument should not be taken into consideration for the purposes of the proceedings.

15. All documents submitted by you in support of the reply must be duly authenticated.

16. The video link facilities are available in the office of SECP in the city in which your registered office is situated. In case you wish to avail this option please inform the undersigned in writing on or before April 10, 2018 so that appropriate arrangements may be made in this regard.

17. Please note that you will be liable under the law for any concealment of any evidence or misstatement made in response to this show cause notice.

18. Please acknowledge the receipt of this notice through return fax at the number provided below.



(Jawed Hussain)

Registrar

Modaraba Companies and Modaraba



namely National Bank of Pakistan (NBP) is interested to revive Frist National Bank Modaraba and willing to inject Rs.300 million in the equity of Frist National Bank Modaraba.

2. And whereas, the Board of NBMMCL had given an assurance to the Registrar Modaraba for submission of a firm commitment from the National Bank of Pakistan (NBP) before the month of Ramadan for injecting Rs.300 million in the equity of Frist National Bank Modaraba. On the basis of the said assurance and as requested by the Modaraba Company and its Board of Directors, further proceedings in the matter were kept in abeyance till the start of the month of Ramadan.

3. And whereas, through an email dated May 17, 2018, received from the Chief Executive of the Modaraba Company, it was informed that the matter regarding the recapitalization of the Modaraba had been moved through circulation to the NBP Board Members and that Board of Directors of NBP would like to deliberate upon this matter in the upcoming Board Meeting rather than by circulation.

3. And whereas, through a return email by this office dated 21.5.2018, it was informed to the Chief Executive that that matter cannot be lingered on for an indefinite time and he was advised to act proactively to seek the decision of NBP on recapitalization of the Modaraba, as promised by the Board of NBMMCL in the hearing held on May 2, 2018. He was further advised for an immediate response but not later than May 25, 2018. He was further advised to provide a certified copy of the circular resolution sent to the Board of NBP, by return email but the said email has not yet responded by the Chief executive or any of the members of the Board of NBMMCL.

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5. Now, therefore, final hearing of the subject show cause is fixed on June 5, 2018 before the Registrar Modaraba in his office at 5<sup>th</sup> Floor, NIC Building, Jinnah Avenue, Blue Area, Islamabad at 10 A.M. You are hereby called upon to appear before the Registrar Modaraba on the given date and time, either personally or through an authorized representative. Please ensure that the authorizing instrument (a Board's resolution on behalf of the Modaraba Company or power of attorney on behalf of directors in their individual capacity) is submitted to this office prior to the date of hearing.

Yours truly,

(SHAHID MAHMOOD)  
Additional Director



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HO:SBOD:2053  
July 13, 2018.

The General Manager  
Pakistan Stock Exchange Ltd  
Stock Exchange Building  
Karachi.

Dear Sir,

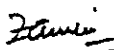
**DISCLOSURE OF MATERIAL INFORMATION**

In accordance with Section 15D of the Securities & Exchange Ordinance, 1969 read with Clause 5.6.1 of the Rule Book of the Exchange, we hereby convey the following :

The Board of Directors of National Bank of Pakistan (the "Bank") in its meeting held on June 22, 2018, resolved that its earlier decision intimated vide Notice to Pakistan Stock Exchange (HO:SBOD:1037, dated April 21, 2017) regarding National Bank Modaraba Management Company Limited (the "Company"), a wholly owned subsidiary of the Bank and First National Bank Modaraba (the "Modaraba"), being the Modaraba managed by the Company has been reviewed and reversed. The Board of Directors of the Bank has further resolved that the First National Bank Modaraba (the "Modaraba") should be recapitalized subject to approval of its Regulators (i.e. SECP & PSX) with Rs. 300 million at Rs. 10 per certificate to enhance its paid up capital.

A disclosure form as required under S.R.O. 143(1)/2012 dated December 5, 2012 read with Section 131 of the Securities Act, 2015 is also enclosed as Annexure A.

Yours Sincerely

  
S. M. ALI ZAMIN  
Secretary (Board)

Secretary Board of Directors  
NBP, 2nd Floor, Head Office, I.I. Chundrigar Road, Karachi. Ph: 99220224 Fax: 99220239  
Website: www.nbp.com.pk

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ANNEXURE A

DISCLOSURE FORM

IN TERMS OF SECTIONS 96 AND 131 OF THE SECURITIES ACT, 2015

Name of the Company	National Bank of Pakistan Head Office, I. I. Chundrigar Road, Karachi
Date of Report	July 13, 2018
Contact Information	Mr. Rehmat Ali Hasnie SEVP, Investment Banking Group National Bank of Pakistan Head Office, I. I. Chundrigar Road, Karachi Telephone Number: [021] 99220891-2 Fax Number: [021] 99220953 Email Address: rehmat.hasnie@nbp.com.pk

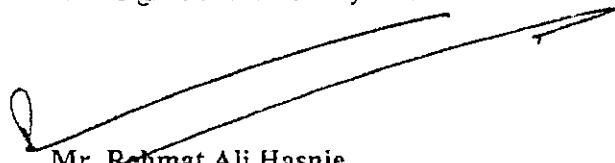
Please mark the appropriate box below (see General Instruction A.1 below before filing the details).

Disclosure of price sensitive/ inside information by listed company.

Public disclosure of price sensitive / inside information, which directly concerns the listed securities.

The Board of Directors of National Bank of Pakistan (the "Bank") in its meeting held on June 22, 2018, resolved that its earlier decision intimated vide Notice to Pakistan Stock Exchange (HO:SBoD:1037, dated April 21, 2017) regarding National Bank Modaraba Management Company Limited (the "Company"), a wholly owned subsidiary of the Bank and First National Bank Modaraba (the "Modaraba"), being the Modaraba managed by the Company has been reviewed and reversed. The Board of Directors of the Bank has further resolved that the First National Bank Modaraba (the "Modaraba") should be recapitalized subject to approval of its Regulators (i.e. SECP & PSX) with Rs. 300 million at Rs. 10 per certificate to enhance its paid up capital.

The company has duly caused this form / statement to be signed / on its behalf by the undersigned hereunto duly authorized.

  
Mr. Rehmat Ali Hasnie  
SEVP, Investment Banking Group  
National Bank of Pakistan



**302**

**National Bank Modaraba Management Company Ltd**  
(A subsidiary Of National Bank of Pakistan)

**EXTRACT OF RESOLUTION PASSED BY BOARD OF DIRECTORS OF NATIONAL BANK MODARABA MANAGEMENT COMPANY LTD ON OCTOBER 2, 2018 BY CIRCULATION**

RESOLVED that 30 million new Modaraba certificates of Rs.10 each at par of total value of Rs.300 million in its Modaraba namely, First National Bank Modaraba, be issued to Company's holding company National Bank of Pakistan otherwise than rights under Section 83(1)(b) of Companies Act 2017, subject to prior approval of Registrar Modaraba Companies and Modaraba, SECP.

FURTHER RESOLVED that the CEO is authorized to deal, sign, execute all necessary documents and take all the steps in light of opinions by the legal counsel and to deal with all other related matters in this regard.

FURTHER RESOLVED that M/s Ahmed & Qazi, Advocates & Legal Consultants, having their office at 402, 403, 404 & 417, Clifton Centre, Clifton, Karachi, be and are hereby appointed as Company's legal counsel to advise on legal angles of the aforesaid transaction.

FURTHER RESOLVED that any other act be performed or step be taken which may be ancillary and/or incidental and necessary to fully achieve the object of this resolution.

FURTHER RESOLVED that a certified true copy of this resolution be provided to all regulatory authorities including PSX, CDC and SECP.

**Ali Abbass**  
Company Secretary



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**AHMED & QAZI**  
ADVOCATES & LEGAL CONSULTANTS



SCA

*Reviewed after phone  
September 6, 2018  
No further action  
26/9/18  
Add.*

*25/09  
Regist. No. (M)*

**Registrar**  
Modaraba Companies and Modaraba  
Securities & Exchange Commission of Pakistan  
NIC Building Jinnah Avenue Blue Area  
Islamabad

Dear Sir

**NBP Modaraba Recapitalization of Rs. 300 million**

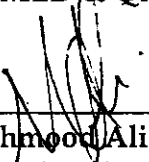
Thank you for meeting us on 13.08.2018.


Before proceeding with the modaraba recapitalization transaction through further issue of 30 million Modaraba Certificates of Rs 10 each, total consideration Rs. 300 million, to National Bank of Pakistan in a mode kindly advised by yourself, we are enclosing for you a draft application of NBP Modaraba Company along with attached documents.

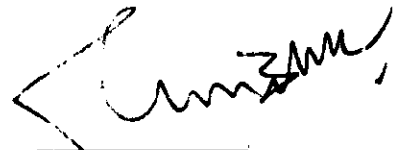
Kindly let us know if the enclosed drafts are satisfactory so that we can advise the company to immediately submit the formal application for your approval.

Yours truly

**FOR AND ON BEHALF OF  
AHMED & QAZI**

  
**Mahmood Ali**  
Senior Associate

  
**Nazif Ahmed**  
Senior Associate

  
**Nadeem Ahmed**  
Managing Partner

CC to:

**Mr Abbas Azam**  
CEO  
National Bank Modaraba Management Bank Ltd.

24200102 dt 6.9.2018

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Fee of Rs. 300,

[DRAFT APPLICATION]

Registrar  
Modaraba Companies & Modaraba  
Securities & Exchange Commission of Pakistan  
Islamabad

**Application under Rule 20A and 20B of Modaraba Companies and Modaraba Rules 1981 to request for approval for Recapitalisation of Rs. 300 million in NBP Modaraba**

In order to comply with your direction/ requirement to increase Modaraba Fund by at least Rs. 300 million, in view of the losses in Modaraba, while no current certificate holder or new investor will be willing to invest at par, let alone such a huge amount, our parent company National Bank of Pakistan has agreed to invest Rs. 300 million in the Modaraba at par, i.e. against new 30 million modaraba certificates of Rs. 10 each.

We are thus writing to seek your approval under Rule ~~20A and~~ 20B of the Modaraba Companies and Modaraba Rules 1981 for increasing our Modaraba Fund by Rs. 300 million by issuing 30 million new modaraba certificates of Rs. 10 each at par to our parent company National Bank of Pakistan (NBP).

Subject to your approval, within fifteen (15) of the company exercising its power under Rule 20 A, we will pay the specified fee for the additional amount by which Modaraba Fund is proposed to be increased, i.e. Rs. 300m.

The new Modaraba Certificates being issued will not be offered to existing certificate holders under Rule 20B and as the company plans to issue the said certificates to NBP otherwise than rights under Section 83(1)(b) of Companies Act 2017. As already mentioned, in view of accumulated losses, no existing certificate holder will be willing to invest in modaraba at par. In fact, NBP's subscription of Rs. 300m at par will forthwith increase the existing value of current certificate holders.

The new Modaraba Certificates proposed to be issued to NBP shall rank *pari passu* with the existing certificates in all matters including the right to such bonus or right issue and dividend as may be declared subsequent to the date of issue of the new Modaraba Certificates.

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NBP has already intimated PSX about its decision to invest Rs. 300m in the Modaraba. The company further undertakes to comply with all the applicable formalities and requirements of PSX and CDC.

In view of above, we would really appreciate your approval for issuance of new 30 million moradaba certificates to NBP otherwise than right. Upon receipt of your approval, we will proceed to complete the transaction at the earliest.

Yours truly,

Abbas Azam  
CEO

Annexure:

1. Copies of SECP/your letters dated 05.09.2017, 05.10.2017, 02.04.2018, 28.05.2018 and 19.07.2018
2. Copy of our company Reply to SECP/your letter dated 10.04.2018
3. NBP Letter dated 13.07.2018 to PSX intimating about their decision to invest Rs. 300 million in the Modaraba
4. Draft of our company board resolution approving issuance of 30m modaraba certificates at par to NBP

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[Draft Board Resolution]

**EXTRACT OF BOARD RESOLUTION OF NATIONAL BANK MODARABA MANAGEMENT COMPANY LTD. (THE "COMPANY") PASSED AT ITS REGISTERED OFFICE ON \_\_\_\_ DAY OF \_\_\_\_ 2018 BY THE BOARD OF DIRECTORS OF THE COMPANY**

**RESOLVED** that in order to comply with requirement of Registrar Modaraba Companies and Modaraba, Securities and Exchange Commission of Pakistan ("SECP"), 30 million new modaraba certificates of Rs. 10 each at par of total value of Rs. 300 million in its Modaraba namely, First National Bank Modaraba, be issued to Company's holding company National Bank of Pakistan otherwise than rights under Section 83(1)(b) of Companies Act 2017, subject to prior approval of Registrar Modaraba Companies and Modaraba, SECP.

**FURTHER RESOLVED** that Mr. *[insert name of the authorized person on behalf of the Company]* is authorized to deal, sign, execute all necessary documents and take all the steps in light of opinions by the legal counsel, certified chartered accountant and to deal with all other related matters in this regard.

**FURTHER RESOLVED** that Ahmed & Qazi, Advocates & Legal Consultants, having its office at 402, 403, 404 & 417, Clifton Centre, Clifton, Karachi, be and are hereby appointed as Company's legal counsel and *[insert name of the Chartered Accountant firm]* be and are hereby appointed as Chartered Accountants to advise on legal and financial angles of the aforesaid transaction.

**FURTHER RESOLVED** that any other act be performed or step be taken which may be ancillary and/or incidental to do the above and necessary to fully achieve the object of this resolution.

**FURTHER RESOLVED** that a certified true copy of this resolution be provided to all regulatory authorities including PSX, CDC and SECP.

**Certified by:**

\_\_\_\_\_  
**Company Secretary**





Securities and Exchange  
Specialized Com.  
Policy, Regulation and De  
(Modaraba)

**ANNEX-T**

December 3, 2018

No. SC/M/PRDD/NBP/2018- 346

**307**

The Chief Executive,  
National Bank Modaraba Management Company Limited,  
Manager of First National Bank Modaraba,  
5<sup>th</sup> Floor, NBP RHQ Building,  
26-McLegon Road,  
Lahore.

Subject: Application for approval to issue other than Right Modaraba Certificate by First National Bank Modaraba

Dear Sir,

I am directed to refer to your letter dated December 3, 2018 regarding the subject noted above.

2. The competent authority has approved issuance of 30,000,000 (other than) Right modaraba certificates by First National Bank Modaraba to National Bank of Pakistan, amounting to Rs300,000,000/- at par value of Rs10/- per modaraba certificate, subject to the following conditions:

- (i) The further issue of 30,000,000 other than Right modaraba certificates shall rank *pari passu* with the existing modaraba certificates of First National Bank Modaraba in all the matters including bonus, right and cash dividend as may be declared by the Modaraba subsequent to the date of issue of other than Right modaraba certificates.
- (ii) The Modaraba Company shall file return of allotment of the issue of other than Right Modaraba Certificates within one month from the date of allotment as prescribed under rule 26 of the Modaraba Rules, 1981.

Yours truly,

(Atif Ejaz Ahmed)  
Deputy Director

CONFIDENTIAL  
ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

NIC Building, Jinnah Avenue, Blue Area, Islamabad.  
PABX: 9207091-4 Ext. 150 - Fax. No. 9218590, E-mail: [atif.ejaz@secp.gov.pk](mailto:atif.ejaz@secp.gov.pk)



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
SPECIALIZED COMPANIES DIVISION  
ADJUDICATION

**ANNEX-U**  
**308**

ORDER

In the matter of

First National Bank Modaraba  
Managed by National Bank Modaraba Management Company Limited

Show Cause Notices No.

SC/M/PRDD-ADJ/FNBM/2018-110

Dated:

April 2, 2018

Date of Hearing

June 5, 2018

Submissions by:

1. Mr. Abbas Azam,  
Chief Executive in person and on behalf of:
  - (i) National Bank Modaraba Management Company Limited
  - (ii) Mr. Rehmat Ali Hasni Director
  - (iii) Mr. Jamal Nasim Director
  - (iv) Mr. Iqbal Hussain Director
  - (v) Mr. Khawaja Waheed Raza Director
  - (vi) Ms. Amir Amin Director
2. Mr. Khawaja Waheed Raza Director

ORDER UNDER SECTION 23 OF THE MODARABA COMPANIES AND MODARABA  
(FLOTATION AND CONTROL) ORDINANCE, 1980

This Order shall dispose of the proceedings against National Bank Modaraba Management Company Limited ("the Modaraba Company"), the managers of First National Bank Modaraba ("the Modaraba") its Chief Executive and Directors, initiated vide show-cause notice dated April 02, 2018 ("the Notice") under section 23 of the Modaraba Companies and Modaraba (Floatation & Control) Ordinance 1980 ("the Modaraba Ordinance").

2. In terms of the Notice, the audited financial statements of the Modaraba showed that the

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ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

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ATIF EJAZ AHMED  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

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Modaraba was suffering losses for five consecutive years since June 30, 2011. The accumulated losses of the Modaraba for the year ended June 30, 2017 were Rs.277.62 million against the total modaraba fund of Rs.250 million, subscribed by the holders of modaraba certificates.

3. As per half yearly accounts of the Modaraba for the period ended December 31, 2017, the accumulated losses of the Modaraba amounted to Rs.276.60 million which constituted 111% of total modaraba fund. This indicated an erosion of total modaraba fund of Rs.250 million. The statutory auditors of the Modaraba in their report annexed with the annual audited accounts of the Modaraba for the year June 30, 2017 drew attention to note 1.1 of the annual accounts, according to which the Modaraba was no longer a going concern. Due to the said reason, the financial statements of the Modaraba were prepared on the basis of estimated realizable/settlement values of assets and liabilities, respectively. This resulted in recognition of additional provision of Rs.39.07 million based on the subjective evaluation of non-performing receivables.

4. It is pertinent to mention that the issue of deteriorating financial condition of the Modaraba and accumulated losses was taken up by the Registrar Modaraba with the Modaraba Company multiple times. In various meetings and correspondence, the management of the Modaraba submitted different plans including exit strategy from the business of the Modaraba through its liquidation and injection of equity by the sponsors for reducing the losses and for revival of the Modaraba. However, the Modaraba Company failed to submit any viable time bound plan for revival of the Modaraba despite having been provided with sufficient time and opportunity. Consequently, the Notice was issued under section 23 of the Modaraba Ordinance to show cause as to why the Modaraba should not be wound up since its accumulated losses as of June 30, 2017 were Rs.277.60 million and as per half yearly reviewed accounts as of December 31, 2017, Rs.276.60 million. These losses constituted more than 50% of the total amount subscribed by the holders of the Modaraba Certificates.

5. The Modaraba Company, its chief executive and directors were required to submit written response to the Notice within ten days. They were also required to appear before the Registrar Modaraba on April 16, 2018 for a personal hearing in the matter. The Modaraba Company vide letter dated April 10, 2018 submitted the requisite response to the Notice. On the request of the Modaraba Company, the date of hearing was rescheduled for June 05, 2018. On the said date, Mr. Abbas Azam, CEO appeared in person and on behalf of the Modaraba Company, Mr. Rehmat Ali Hasni, Mr. Jamal Nasim, Amir Amin and Mr. Iqbal Hussain. Mr. Khawaja Waheed Raza, Director

*Bushra*

also attended the hearing.

6. During the hearing, the CEO of the Modaraba Company admitted the contents of the Notice which warranted winding up of the Modaraba under section 23 of the Modaraba Ordinance. He, however, informed the Registrar Modaraba about firm commitment of National Bank of Pakistan (NBP), the parent company of the Modaraba Company for recapitalization of the Modaraba by Rs.300 million to be injected in the equity of the Modaraba. In this regard, the Registrar Modaraba advised Mr. Azam to provide a certified copy of the decision of the board of director of NBP so as to consider the request. The Modaraba Company vide letter dated July 13, 2018 provided a copy of announcement by NBP dated July 13, 2018, indicating that the board of directors of NBP in its meeting held on June 22, 2018 resolved to inject Rs.300 million in the equity of the Modaraba.

7. In view of the development that the parent company, NBP had decided to inject funds in the Modaraba to revive its financial position, the Registrar decided to provide another opportunity to the Modaraba Company to continue and turnaround the Modaraba by utilizing the funds in the best interest of the certificate holders. The Modaraba Company and the consultants of the Modaraba vide letter dated October 2, 2018 filed a formal application dated September 4, 2018 in terms of section 83 of the Companies Act, 2017 for issuance of new modaraba certificates (other than right) at par value of Rs.10 each, valuing Rs.300 million to NBP. The approval for issuance of other than right modaraba certificates was granted to the Modaraba Company on December 3, 2018.

8. Subsequent correspondence and emails exchanged between the Modaraba Company and this office, revealed that the Modaraba Company had sought no objection of the proposed injection of funds from the State Bank of Pakistan, which till date has not granted the requisite NOC.

9. I have considered all the relevant facts, position of law and have also perused the documents placed before me. The written submissions of the Modaraba Company were examined and discussed in the hearings at length. Sufficient time has been granted to the Modaraba Company for recapitalization of the Modaraba. However, it has miserably failed to come up to its commitment to inject the funds. The matter of injection of funds in the Modaraba is lingering on since July, 2018. The continuous losses of the Modaraba during the last five years have wiped out almost the entire paid up fund of the Modaraba. Due to non-availability of working capital, entire business activities of the Modaraba are at halt.

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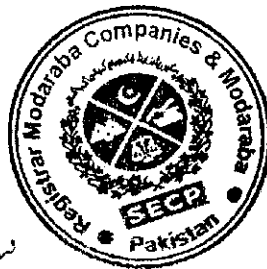
10. As per annual audited accounts of the Modaraba for the years ended June 30, 2018 and June 30, 2019, the accumulated losses of the Modaraba are continuously increasing and have reached to Rs.285,810,707 and Rs.316,065,303, respectively. The equity of the Modaraba is already negative and there are remote chances of revival of the Modaraba and resultantly any return accruing to the modaraba certificate holders, under the above circumstances. Among other items, operating expenses alone of Rs.71.81 million (2018) and Rs.52.35 million (2019) are contributing towards further deterioration of public funds every year.

11. As per audited accounts for the year ended June 30, 2017, 2018 and 2019, the accumulated losses of the Modaraba have exceeded more than fifty percent of the total amount subscribed by the Modaraba Certificate holders. The Modaraba Company failed to arrest further deterioration in both asset quality and performance of the Modaraba with the result that the accumulated losses have in fact exceeded more than 100% of the paid up fund. I am, therefore, of the considered view that in order to safeguard the interest of the certificate holders and to stop further accumulation of losses, it is just and equitable to initiate winding up proceedings of First National Bank Modaraba through Modaraba Tribunal, in the public interest.

12. Based on the above facts, I, therefore, in exercise of powers conferred under section 23 (1) (ii) (b) of the Ordinance hereby declare that as the accumulated losses of the Modaraba have exceeded more than fifty percent of the total amount subscribed by the modaraba certificate holders, it may be wound up in the public interest by filing an application for winding up before the Modaraba Tribunal Lahore.

13. Nothing in this Order may be deemed to prejudice operation of any other provision of the Modaraba Ordinance, providing for the prosecution or imposition of penalties on the CEO or Directors or the Modaraba Company in respect of any default, omission, contravention of the Modaraba Ordinance and Modaraba Rules, 1981, committed by them.

14. Issued under my hand and seal this 31<sup>st</sup> day of October 2019.



*Bushra*  
(Bushra Aslam)  
Registrar  
Modaraba Companies and Modarabas

*ATIF EJAZ AHMED*  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

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*ATIF EJAZ AHMED*  
Deputy Director  
Securities and Exchange  
Commission of Pakistan  
Islamabad

**BEFORE THE HONORABLE MODARABA TRIBUNAL, LAHORE**  
(Modaraba Jurisdiction)

Misc. Application No. \_\_\_\_\_ of 2020  
in \_\_\_\_\_  
Modaraba Application No. \_\_\_\_\_ of 2020

In the matter of First National Bank Modaraba, managed by **National Bank Modaraba Management Company Limited**

Registrar Modaraba Companies and Modarabas

Versus

National Bank Modaraba Management Company Limited etc.

*(Petition Under Section 23 Of Modaraba Companies And Modaraba (Floatation And Control) Ordinance, 1980 Read With All Other Enabling Provisions Of Law For Winding Up Of Respondent No. 1 Modaraba Company)*

**APPLICATION FOR DISPENSATION OF CERTIFIED COPIES**

Respectfully Submitted:

- 1 That the applicant has filed the accompanying application, the contents of which may kindly be read as an integral part of this application.
- 2 That the applicant has filed the uncertified copies of certain documents, as their certified copies not readily available.
- 3 That the same shall be submitted as and when they will become available.

**PRAYER:**

Under the circumstances, it is most respectfully prayed that this Hon'ble Court may be pleased to dispense with the requirement of filing certified copies.

Any other relief which this Hon'ble Court may deem appropriate may also be awarded.

Through



4 *Bulhr9*  
Applicant

*Ruman Bilal*

**Ruman Bilal**

Advocate High Court  
C.C. No. # P-GW-48254  
CNIC: 34101-6280940-7

**BEFORE THE HONORABLE MODARABA TRIBUNAL, LAHORE**  
(Modaraba Jurisdiction)

Misc. Application No. \_\_\_\_\_ of 2020  
in  
Modaraba Application No. \_\_\_\_\_ of 2020

In the matter of First National Bank Modaraba, managed by **National Bank Modaraba Management Company Limited**

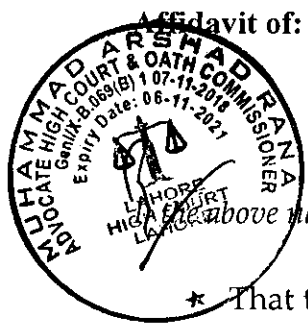
Registrar Modaraba Companies and Modarabas

Versus

National Bank Modaraba Management Company Limited etc.

*(Petition Under Section 23 Of Modaraba Companies And Modaraba (Floatation And Control) Ordinance, 1980 Read With All Other Enabling Provisions Of Law For Winding Up Of Respondent No. 1 i.e. First National Bank Modaraba)*

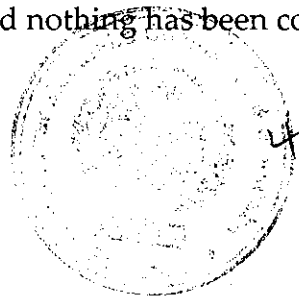
**APPLICATION FOR DISPENSATION OF CERTIFIED COPIES**



**Affidavit of:** Miss Bushra Aslam, Registrar Modaraba Companies and Modarabas, having its office at Securities and Exchange Commission of Pakistan, NIC Building, 63-Jinnah Avenue, Islamabad

*The above named deponent do hereby solemnly declare and affirm as under:*

★ That the averments as contained in the accompanying application are correct and true to the best of my knowledge and belief and nothing has been concealed there from.

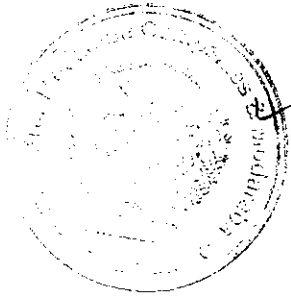


*Bushra*  
DEPONENT

**VERIFICATION**

Verified on Oath at Lahore on this 03 day of June, 2020 that the contents of this affidavit are correct to the best of my knowledge and belief.

Certified that the above/under/back  
Was Declared on oath before me  
by Mr/Ms. Bushra Aslam  
S/o, D/o, W/o Registrar Modaraba  
R/o Securities and Exchange Commission  
Identified by Mr. Counsel  
C.C.No: \_\_\_\_\_  
Identifier is "Personally Known to me"  
Date: 03/06/2020



*Bushra*  
DEPONENT

MUHAMMAD ARSHAD  
ADVOCATE HIGH COURT  
& OATH COMMISSIONER  
Lahore High Court  
Notification No. \_\_\_\_\_  
Expiry Date: 06-11-2021

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## POWER OF ATTORNEY

BEFORE THE HONORABLE MODARABA TRIBUNAL, LAHORE  
(Modaraba Jurisdiction)

Modaraba Application No. \_\_\_\_\_ of 2020

For : Petitioner /Applicant

**Registrar Modaraba Companies and Modaraba**

Plaintiff/Petitioner/Complainant

Versus

**First National Bank Modaraba Managed National Bank Modaraba Management Company  
Limited and Others**

Defendant/Respondent/Accused

Fixed For .....

I / We the undersigned do hereby nominate and appoint **Mr. Ruman Bilal, Advocate** to be the Counsel in the above matter for me/us and on my/our behalf to appear, plead, act and answer in the above Court or any appellate Court or any other Court to which the business is transferred in the above matter and to sign and file petitions, statement, accounts, exhibits, compromises or other documents whatsoever, in connection with the said matter or any matter arising therefrom and also to apply for and issue summons and other writs or sub-poena and to apply for and get issued any arrest, attachment or other execution, warrant or order and to conduct any proceeding that may arise there out and to apply for and receive payment of any or all sums or submit for the above matter to arbitration and to employ any other Legal Practitioner authorizing him to exercise the Power and authorities hereby conferred on the Advocate whenever he may think fit to do so.

He is further authorized to negotiate / settle, compromise and withdraw any proceedings from Civil Court, Tribunal, High Court and Supreme Court. He is further authorized to represent us, sign documents on our behalf, give statement in the Court and submit arguments oral or in writing.

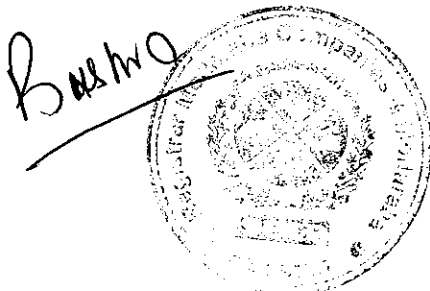
**AND** to do all acts legally necessary to manage and conduct the said case in all respects, whether herein specified or not as may be proper and expedient.

**AND I / WE**, hereby agree to ratify and confirm all lawful act done on my/our behalf under or by virtue of these presents or of the usual practice in such matter subject to the terms regarding fee.

**PROVIDED** always, that if the case may be dismissed in default, if it be proceeded ex-parte the said counsels shall not be held responsible for the same and hereby agree that in the event of the whole fee agreed by me/us to be paid to the advocate remaining unpaid he shall be entitled to withdraw from the prosecution of the said case until the same is paid.

**IN WITNESS Whereof I/We** have hereto signed at Lahore on this \_\_\_\_\_ day of May, 2020.

Executant(s)



**Ruman Bilal**

Advocate High Court  
CC. No. P-GW-48254  
Mob: 0322-3110111